Insurance Institute of Michigan

The **Insurance Institute of Michigan** (IIM) is a government affairs and public information association proud to represent 39 property/casualty insurance companies and another 56 related organizations operating in Michigan. IIM member companies provide insurance to approximately 74% of the automobile, 65% of the homeowner, 35% of the workers' compensation and 19% of the medical malpractice markets in Michigan.

IIM's purpose is to serve the Michigan insurance industry and the insurance consumer as a central focal point for educational, media, legislative and public information on insurance issues.

The Association serves as the official spokesperson for the property/casualty insurance industry in Michigan. To assist consumers, IIM maintains a toll-free consumer "hotline" to answer insurance questions or assist in resolving problems (1-800-777-8005).

IIM was formed in 2003 when the operations of the Michigan Insurance Federation (MIF) and Insurance Association of Michigan (IIAM) were consolidated.

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Insurance Institute of Michigan

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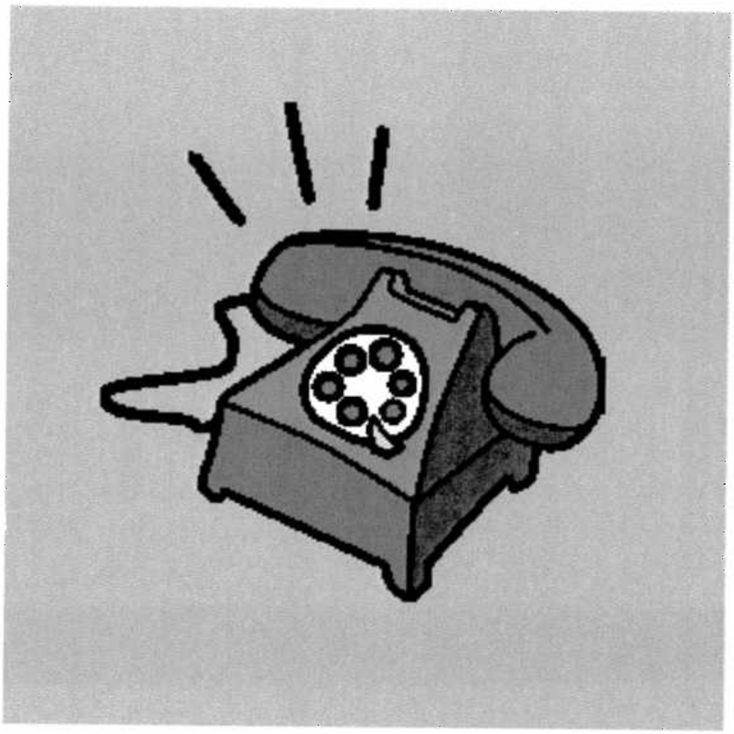
Insurance Questions?
No Problem.



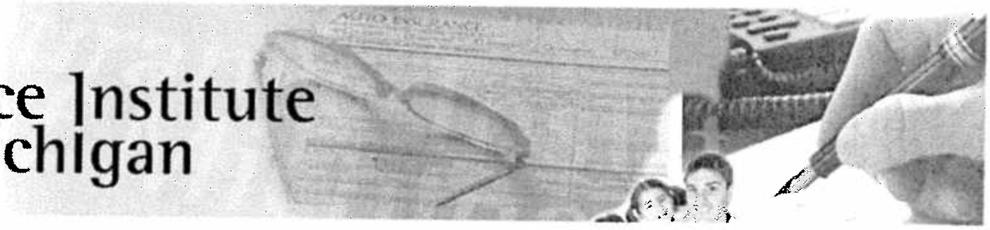
Call the Insurance Information Hotline

1-800-777-8005

This free service is designed to provide consumers with prompt, objective information on all types of insurance. It is available Monday through Friday, 8:30 a.m. to 4:30 p.m.

This service was founded in 1979 by the Michigan insurance industry.

Insurance Institute of Michigan



Visit the Insurance Institute of Michigan's website at
www.iiminfo.org

- Listing of IIM Members.
- Backgrounders on
  Credit-Based Insurance Scoring Discounts
  Homeowners Insurance
  No-Fault Auto Insurance
  Michigan Catastrophic Claims Association
  Insurance Fraud
- IIM Position Papers
- Answers to the Most Commonly Asked Insurance Questions
- Statistics
- A Glossary of Insurance Terms
- News Releases
- Tips On How To Save Money on Home and Auto Insurance
- IIM's Political Action Committee

CONSUMER INFORMATION AND ASSISTANCE FROM

INSURANCE INSTITUTE OF MICHIGAN

The Insurance Institute of Michigan (IIM) is a government affairs and public information association representing more than 90 property/casualty insurance companies and related organizations operating in Michigan. IIM's purpose is to serve the Michigan insurance industry and the insurance consumer as a central focal point – for educational, media, legislative, and public information insurance issues. IIM was formed in 2003 when the operations of the Michigan Insurance Federation (MIF) and Insurance Information Association of Michigan (IIAM) were consolidated.

INSURANCE INFORMATION HOTLINE

The Insurance Information Hotline, established in 1979, is a ready source of information on all types of insurance. Consumers can call 1-800-777-8005 from 8:30 a.m. to 4:30 p.m. Monday through Friday to receive prompt, objective insurance information. Callers can ask general insurance questions or receive help resolving a dispute with their insurance company. More than 300 people dial up the Hotline's toll-free telephone number each month. Hotline personnel do not recommend companies, agents or the types of coverage that consumers might buy. Callers do get advice on how to shop for the best deals on insurance.

S.A.F.E. LIBRARY

SAFE (Safety Awareness for Everyone) is a program designed to help promote safety to high school students, business and civic groups and senior citizens through the free loan of videotapes and distribution of informational brochures. Topics include: anti-drinking and driving, defensive driving, crime prevention and weather safety.

INSURANCE EDUCATION SEMINARS

A program to "teach the teachers." Annually, IIM sponsors seminars around the state for high school instructors. These one-day sessions include a review of insurance principles and detailed instruction on auto and homeowners insurance. This training help the teachers better understand how insurance works, so they can pass that information on to their students.

SPEAKERS BUREAU

IIM provides personalized presentations by executives of Michigan's insurance industry to high school classes, business and civic groups and senior citizens. This free Speakers Bureau program, created in 1975, includes topics, such as a review of no-fault, consumers rights, car theft, how to reduce insurance costs, drunk driving, insurance fraud, selecting insurance for businesses and crime prevention.

SEVERE WEATHER INFORMATION

Founded and coordinated by IIM, the Michigan Committee for Severe Weather Awareness is the state's front-line task force concerning severe weather preparedness. The group sponsors public awareness campaigns regarding flood, tornado and winter weather.

MICHIGAN ARSON PREVENTION COMMITTEE (MAPC)

IIM is an active participant in MAPC -- and the ongoing fight to reduce this deadly and costly crime. MAPC sponsors programs to: 1) increase public awareness 2) train fire service and law enforcement personnel in arson detection and 3) support tougher laws. This group also offers rewards of up to $5,000 for tips that lead to the arrest and/or conviction of arsonists. It also sponsors a toll-free reporting hotline, 1-800-44-ARSON).

WEBSITE

IIM's website, *www.iiminfo.org*, provides accurate insurance information to consumers and the media. The site includes general information about auto and homeowners insurance coverages, educational resources, recent news releases and industry links. It is also interactive, allowing consumers and educators to request videotapes, brochures and speakers online.

MICHIGAN DEER CRASH COALITON

IIM is an active member of the Michigan Deer Crash Coalition, which is working to reduce the number of car-deer accidents in Michigan. The coalition sponsors a public awareness campaign each fall to increase awareness about the dangers of car-deer crashes.

The Insurance Industry

Michigan Insurance Industry Employment

There are over 1,500 property/casualty, life and health insurance companies helping to protect citizens in Michigan. It is estimated that about 55,000 persons are employed by the Michigan insurance industry.

And that doesn't include the thousands more jobs in the businesses that work with insurance companies, including everything from printers and accounting firms to shipping haulers and caterers. It also doesn't include the jobs created by businesses patronized by those 55,000 employees. That number is estimated to be nearly 100,000.

Insurance companies also pay billions of dollars each year in claims and benefits to policyholders. These dollars are used to pay for medical care of those injured, rebuild and repair houses, repair automobiles and replace personal property, all of which create more jobs -- and stimulate additional economic development.

An Overview of Michigan's Insurance Industry 2002-2007

	2002	2003	2004	2005	2006	2007
Direct written premium in Michigan (000)	$44,751,195	$46,661,406	$48,467,747	$49,771,390	$50,268,630	$51,978,101
Employment (average annual):						
* insurance companies	34,564	34,527	32,823	31,782	31,520	31,672
* agents, brokers services	23,377	22,969	24,081	24,504	24,186	23,258
Insurers authorized to do business in Michigan	1,537	1,530	1,528	1,564	1,557	1,548
New Agent Licenses Issued	18,601	18,752	18,701	20,856	21,893	24,425

Source: Bureau of Labor Statistics, Michigan Office of Financial and Insurance Services Annual Report.

The Insurance Industry

The Insurance Industry: A Good Corporate Citizen

The insurance industry supports developing products and programs to help reduce costs, promote safety and save lives. For example:

- Research to improve auto technology to increase occupant safety.
- Programs to reduce drunk driving.
- Highway safety research to improve the driving environment.
- Support for auto theft and burglary reduction programs.
- Support for neighborhood revitalization efforts.
- Special investigative units to fight fraudulent claims.
- Programs to improve safety in the workplace.
- Programs to promote fire safety and prevention.
- Support for disaster prevention planning.

Annual Rate Of Return: Net Income After Taxes As A % Of Equity

	Property/casualty insurance*			Non-property/casualty insurance industries		
Year	Statutory acccounting**	GAAP accounting§	Diversified financial§§	Commercial banks	Electric & Gas utilities	Fortune 500§§§
1998	9.2	8.5	19.8	16.0	10.2	13.4
1999	6.9	6.0	21.0	18.0	11.9	15.2
2000	6.8	5.9	21.3	16.7	11.8	14.6
2001	-1.8	-1.2	19.3	14.0	10.5	10.4
2002	3.3	2.2	19.5	17.3	7.9	10.2
2003	8.5	8.9	19.5	14.9	10.5	12.6
2004	9.3	9.4	15.0	15.5	10.5	13.9
2005	10.7	9.6	15.0	16.0	10.0	14.9
2006	13.4	12.2	15.0	15.0	11.0	15.4

*Return on equity on a GAAP accounting basis, Fortune.
**Net income after taxes, divided by year-end policyholders' surplus. Calculated by the Insurance Information Institute from Highline Data. Statutory accounting is used by insurers when preparing the Annual Statements they submit to regulators.
§ Return on average net worth, ISO.
§§Return on equity on a GAAP accounting basis, Fortune. Combined stock and mutual companies as calculated by the Insurance Information Institute.
§§§ Companies whose major source of revenue comes from providing diversified financial services. These companies are not specificially chartered as insurance companies, banks or savings institutions or brokerage or securities companies, but they may earn revenue from these sources.
§§§§ Fortune 500 Combined Industrial and Services Businesses median return on equity.
Source: National Association of Insurance Commissioners (NAIC) Annual Statement Database, via Highline Data, LLC.

Insurance Institute of Michigan

BACKGROUND: HOW INSURANCE WORKS

Insurance. As consumers, most of us have purchased insurance to protect our life, health, home or car, but how much do we really know about insurance? How many consumers have actually read their insurance policy? Insurance can seem mysterious, but it doesn't have to be.

What is insurance?

Insurance basically involves a group of people agreeing to share risks. It is a very old idea which started back when sailing ships got destroyed or lost their cargoes. Merchants found that by dividing their cargoes among several boats, they protected themselves from total financial ruin. Therefore, if one of the boats was destroyed, no merchant lost everything. Under the system, each merchant stood to lose only a small portion of the cargoes.

Today there are many forms of insurance — life, health, home and auto — are just a few. When you buy insurance, you join many others who pay money to an insurance company. The insurance company uses the money collected to pay claims that are submitted by those who have purchased insurance. The money is "pooled" and losses and expenses are shared.

When you buy insurance, you get a policy. That policy is a legal contract. It spells out in detail exactly what you are buying; it lists what is covered and what is not. It lets you know how much you must pay (the premium) and when it must be paid. You need to read your policy and try to understand it — even if it seems complicated. You should contact your agent or your insurance company representative and ask questions about anything you do not understand. Insurance agents sell policies for an insurance company. Some agents work exclusively for one company. Others sell for many different insurance companies (these are called independent agents).

What are the different types of insurance?

Insurance can protect you for almost anything that might happen unexpectedly or accidentally. You buy protection against the chance of losses that can burden you financially.

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There are many types of insurance available. You can buy insurance to provide income to your dependents in the event of your untimely death. It can also protect you in the event your car is damaged or you are injured in a crash. You need protection for your home and your personal property. Renters need protection for their personal belongings. Insurance can assist if you have a serious illness and costly medical bills. Workers' compensation is insurance purchased by employers to help pay expenses of employees who are injured on the job.

What are the social benefits of insurance?

Along with the personal benefits of insurance, it helps society by reimbursing people and businesses for covered losses, encouraging accident prevention, providing funds for investment, enabling people to borrow money and reducing worry and stress related to accidents or unfortunate events that may occur.

What happens to the premium collected by insurance companies?

Insurance companies basically do three things with the premium dollar. First, they pool the money to pay claims. Second, insurance companies pay for expenses involved in selling and providing insurance protection. Third, insurance companies invest the money. Investment earnings help keep down the cost of insurance for policyholders.

The overall cost of underwriting operations in 2006 amounted to 86 cents for every $1.00 in premium collected. Underwriting operations include claims and associated expenses, costs involved in sales and administration, dividends to policyholders, state taxes and licensing fees, but exclude investment income. Insurance companies generally do not make a profit from their underwriting operations. The proceeds from invested funds in capital and surplus accounts, along with money set aside for reserves, enable insurance companies to continue insurance operations when underwriting losses exceed the amount collected from premiums.

How are premiums determined?

Insurance rate setting is a complex process. Insurance can't be priced like most products, since the money people pay is intended to help cover the costs of unforeseen events, such as auto accidents or fires. Since premiums are paid in advance, the price must be determined before the actual costs are known. While there are many factors considered in ratemaking, rates basically are dependent on two trends: the frequency of claims (how many) and the severity (cost) of each claim.

How does fraud impact what we pay for insurance?

Property/casualty fraud totals more than $30 billion annually. It inflates the cost of insurance for the American family by $200 to $300 each year.

Fraud may be committed at different points in the insurance transaction by individuals and organized fraud rings. Common fraud schemes include "padding" or inflating actual claims, misrepresenting facts on an insurance application, submitting claims for injuries or damages that never occurred or billing for medical services never rendered.

How are insurance companies regulated?

All legal businesses are subject to government oversight. Insurance companies are primarily regulated by state governments. Each state and the District of Columbia has an agency, headed by a chief insurance regulator, that is responsible for administering the insurance laws approved by their state Legislature. Therefore, insurance laws vary from state to state. In Michigan, the state agency with regulatory authority over insurance companies is called the Michigan Office of Financial and Insurance Regulation (OFIR). The chief insurance regulator in Michigan is the OFIR Commissioner.

Insurance Institute of Michigan

Everything You Ever Wanted To Know About Insurance Rates

Insurance premiums we pay today — and will pay tomorrow — reflect the anticipated cost of losses and operating expenses based on past experience. In other words, there is a direct relationship between what companies pay out and what they charge for insurance. Maybe you and I didn't have a claim last year, but a lot of other people did.

Insurance rate setting is the process of calculating a price to cover the future cost of claims and expenses, including a margin for profit. To calculate rates, insurance companies review past trends and changes in the current environment to cover the future costs of insurance claims and expenses. To develop a base rate, insurance companies calculate the amount they expect will be needed to pay claims and expenses and divide that number by the number of insured risks.

The base rate is then adjusted to reflect each insured person's amount of risk. State law limits the factors an insurance company can use to determine the price of an auto policy. The following are just some of the classifications used to determine how much car insurance will cost.

Driver age, length of driving experience or number of years licensed to operate a vehicle. Statistics indicate that older, more experienced drivers are involved in fewer accidents.

Driving record. Good drivers pay lower premiums than those motorists with tickets and at-fault accidents.

Driver's residence. More auto accidents and thefts occur in metropolitan areas than in suburban or rural areas. Due to the increased risk, people who live in metropolitan areas usually pay higher premiums.

Type and use of car. The cost of insuring a car depends not only on its value, but its safety features and cost to repair. Cars with air bags and anti-lock brakes may reduce the cost of Personal Injury Protection coverage. Cars used for business will cost more to insure than those used for recreation because they are on the road more.

Coverages selected. In Michigan, drivers are required to carry Personal Injury Protection, Property Protection and Residual Liability; however, there are several "optional" coverages available to motorists.

There are other social and economic factors which have an impact on the premium motorists pay for auto insurance coverage.

Social inflation and fraud. The term does not refer to specific social programs, but to rising costs brought on by the prevailing attitudes of society. More people are suing each other and today's juries are prone to grant larger awards. The cost of paying high court awards, settlements and even the expense of defending lawsuits translates into higher insurance premiums. Fraud also pushes up the cost of insurance.

Health care costs. The average Personal Injury Protection (PIP) (medical) claim in Michigan in 2007 was $29,392. From 1997 to 2007, the average PIP claim rose more than 200 percent.

The following are some of the factors to determine how much homeowners insurance will cost:

Amount and type of insurance coverage. Homeowners can usually select from good-value, basic policies that will reimburse for the depreciated value of the home up to a deluxe policy that will guarantee to rebuild the home and replace its contents no matter what the cost. Coverage can also be added that is not a part of the regular insurance policy, such as coverage for a home business. The more coverages that are selected, the more expensive the policy will be.

Safety and security. Installation of dead-bolt locks, smoke detectors and fire extinguishers are loss prevention and loss reduction items which can help decrease the cost of a homeowner's policy. The availability of law enforcement or crime prevention services also play a part in determining the homeowner's policy premium.

Location of the home. Where a home is located has a significant impact on the cost to insure it, for several different reasons. Insurance companies will determine if the home is at risk for hail, tornado or other unusual damage; if the home is located within a reasonable distance from a fire service; if the home is located in an area of the country with high costs of construction; and if there is unusually high or low incidence of theft and arson where the home is located.

Type of home. A home's size, type of construction, building material components and number of units are just some of the important factors which determine a home's insurance costs because they affect what it would cost the insurance company to rebuild the home. For example, homes that have unique construction details or older homes which require extensive repairs to comply with current building costs can be costly to rebuild.

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January, 2009

Insurance Institute of Michigan

The Use of Credit In Home and Auto Insurance Discounts

What does credit have to do with auto and home insurance? How do consumers benefit from the use of credit-based insurance scoring in insurance?

The use of credit-based insurance scores is a benefit to insurance customers. Credit-based insurance scoring helps more accurately price insurance based on a consumer's claim potential. As a result of credit-based insurance scoring, many consumers pay less for insurance than they otherwise would, and enables insurance companies to offer coverage to more consumers than they had in the past.

In July of 2007 after years of extensive research, the Federal Trade Commission (FTC) found that use of credit-based insurance scores leads to more accurate underwriting of auto insurance policies in that there is a correlation between insurance scores and the likelihood of filing an insurance claim.

The FTC report, *Credit Based Insurance Scores: Impacts on Consumers of Automobile Insurance*, also states that credit-based insurance scores cannot easily be used as a proxy for race and ethnic origin. In other words, credit-based insurance scoring predicted risk for members of minority groups in much the same way that it predicted risk for members of non-minority groups.

Items in a person's credit history provide a consistent and effective tool to evaluate risk that does not discriminate against any specific group of customers. In fact, the use of credit-based insurance scores actually allows insurance companies to offer lower rates by providing discounts to consumers who have proven to manage their finances well. In Michigan, two-thirds of policyholders receive significantly lower rates due to credit-based insurance scoring.

Credit-based insurance scores are developed from information contained in credit reports. A credit-based insurance score provides a numeric assessment of an individual's insurance risk. It reflects credit payment patterns, length of credit history, types of credit and number of new applications for credit. Insurance companies consider only those items from credit reports that are relevant to insurance loss potential. Unlike a lender, an insurance company is not assessing a customer's income and debt, they are evaluating how customers manage their finances and credit granted to them.

Key findings of the FTC study are:

- Credit-based insurance scores are effective predictors of risk under automobile policies. They are predictive of the number of claims consumers file and the total cost of those claims. The use of scores is therefore likely to make the price of insurance better match the risk of loss posed by the consumer. Thus, on average, higher-risk consumers will pay higher premiums and lower-risk consumers will pay lower premiums.

- Several alternative explanations for the source of the correlation between credit-based insurance scores and risk have been suggested. At this time, there is not sufficient evidence to judge which of these explanations, if any, is correct.

- Use of credit-based insurance scores may result in benefits for consumers. For example, scores permit insurance companies to evaluate risk with greater accuracy, which may make them more willing to offer insurance to higher-risk consumers for whom they would otherwise not be able to determine an appropriate premium. Scores also may make the process of granting and pricing insurance quicker and cheaper, cost savings that may be passed on to consumers in the form of lower premiums. However, little hard data was submitted or available to quantify the magnitude of these benefits to consumers.

- Credit-based insurance scores appear to have little effect as a "proxy" for membership in racial and ethnic groups in decisions related to insurance.

In Michigan, the Commissioner of the Office of Financial and Insurance Regulation (OFIR), the state regulator of insurance, sought to implement a rule that would ban the use of credit-based insurance scoring in this state. That rule was challenged by the insurance industry. A circuit court judge ruled that OFIR did not have the authority to ban credit scoring through administrative rule. However, the Michigan Court of Appeals reversed that decision. The Court of Appeals decision is being appealed by the insurance industry. It is important to note that during the legal appeal process, companies can continue to use credit-based insurance scores as a rating factor.

Prohibiting the use of credit-based insurance scoring will have a detrimental impact on those policyholders receiving significant discounts in Michigan. In Maryland, policyholders faced double-digit percentage increases in their homeowners insurance because of a 2002 state law that banned the use of insurance credit scoring.

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Q & A ABOUT THE USE OF INSURANCE CREDIT SCORE DISCOUNTS IN MICHIGAN

What does a person's credit have to do with home and auto insurance?

Independent studies have proven a strong connection between certain factors in an individual's credit history and the likelihood of an individual filing a claim. People who use credit wisely are generally responsible in other areas of their lives. Research indicates that people with better credit-based insurance scores have fewer losses and less expensive claims.

What is a credit-based insurance score discount?

Credit-based insurance scores are different from credit reports or scores used by lenders. Insurance companies develop credit-based insurance scores from certain credit history information contained in credit bureau reports and use the information when making rating decisions. A credit-based insurance score provides a numeric assessment of an individual's credit risk. It reflects credit payment patterns, outstanding debt, length of credit history, types of credit and number of new applications for credit. Insurance companies consider only those items from credit reports that are relevant to insurance loss potential. Unlike a lender, an insurance company is not assessing a customer's income and debt, they are evaluating how customers manage their finances and credit granted to them.

Why do insurance companies use credit history in rating decision making?

To make fair and objective underwriting decisions, insurance companies need to have as much information as possible. Items in a person's credit history provide a consistent and effective tool to evaluate risk that does not discriminate against any specific group of customers. Information such as a person's age, income, ethnic group, religion, gender or marital status is not factored into credit-based insurance scores.

Why don't insurance companies just look at driving records or claims history?

Most people think that insurance companies can obtain all the information they need from state motor vehicle departments. However, a study by the Insurance Research Council (IRC) indicated that one in five traffic violations may not appear on a Motor Vehicle Record (MVR). Credit information is generally more accurate and compliments driving history to work to the advantage of most policyholders.

How does the use of credit-based insurance score discount benefit insurance consumers?

The use of credit-based insurance scores actually allows insurance companies to offer lower rates by providing discounts to consumers who have proven to responsibly manage their finances. Two-thirds of policyholders have a significantly lower premium because of good credit.

What would happen if insurance companies could no longer provide a discount based on credit information?

If credit information is no longer used as a factor for discounts, many consumers who have a lower potential for loss would pay more for insurance.

Do all insurance companies use credit-based insurance scoring in their rate making?

Most insurance companies do use insurance credit-based insurance scoring. However, consumers can access a list of insurance companies that do and don't use insurance credit scoring at the the Michigan Office of Financial and Insurance Regulation website, *www.michigan.gov/ofis*.

Can a consumer be denied insurance based on their insurance credit-based insurance score?

In Michigan, state law prohibits consumers from being refused insurance based on their credit-based insurance score. Insurance companies here may, however, offer a discount for good insurance credit.

How is a consumer's privacy protected?

Access to specific credit information is very limited. Most insurance companies only see the score, not the information that went into developing it. All companies must follow the Fair Credit Reporting Act and state laws that apply to the use of credit information. These measures ensure there is confidentiality, accuracy and a legitimate need for the information.

Aren't credit reports notoriously inaccurate?

The Consumer Data Industry Association reports that less than 1 percent of all credit report challenges result in a change once the inquiry has been fully investigated. Studies have found that credit reports are more reliable than motor vehicle records.

How can consumers find out about their credit-based insurance score discount?

The use of credit information is not secret. Every existing and potential policyholder deserves to know how a company uses credit information. If you don't feel your agent or company is telling you what you need to know, shop around for another agent or company that will.

What can consumers do to improve their insurance credit-based insurance score?

Consumers can improve their credit-based insurance scores over time by using credit responsibly. Make sure you pay bills on time, keep balances low and apply for and open new credit accounts only as needed.

It is also a good idea to periodically obtain a copy of your credit reports from the three major credit bureaus to check for any inaccuracies. These are available free once a year by visiting, *www.annualcreditreport.com* or calling 1-877-322-8228.

Can consumers ask to have their credit score recalculated if they improve their credit score?

Yes. At the request of the policyholder, a company will rescore at least once annually.

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Insurance Credit-Based Insurance Scoring Studies

2007 U.S. Federal Trade Commission Report to Congress

Credit-based insurance scores are effective predictors of risk under automobile policies. They are predictive of the number of claims consumers file and the total cost of those claims. The use of scores is therefore likely to make the price of insurance better match the risk of loss posed by the consumer. Thus, on average, higher-risk consumers will pay higher premiums and lower-risk consumers will pay lower premiums. Credit-based insurance scores appear to have little effect as a "proxy" for membership in racial and ethnic groups in decisions related to insurance. The relationship between scores and claims risk remains strong when controls for race, ethnicity, and neighborhood income are included in statistical models of risk.

2004-5 Texas Department of Insurance

Found that by using credit scoring, insurers can better classify and rate risk based on differences in claim experience. This study analyzed random sample of claim records totaling 2 million vehicle years and more than 600,000 house years for homeowners insurance. The major findings of this study are: 1) there is a strong correlation between credit scoring and risk; 2) certain age, income and race groups tended to have worse credit scores, though not all minorities have bad credit scores; and 3) credit scoring significantly improves pricing accuracy when combined with other rating variables in predicting risk.

2003 EPIC Actuaries, LCC

Found an unquestionable connection between insurance scores and likelihood for loss. This study analyzed random sample of claim records totaling 2.7 million earned car years from all 50 states for a period from 7/1/00 through 6/30/01. The major findings of this study are: 1) insurance scores were found to be correlated with propensity of loss (primarily due to frequency); 2) insurance scores significantly increase accuracy of the risk assessment process, even after fully accounting for interrelationships with other variables; 3) insurance scores are among the three most important risk factors for each of the coverage types studied; and 4) study results apply generally to all states and regions.

2003 University of Texas McCombs School of Business

Confirmed the strong relationship between credit-based insurance scores and the likelihood of insured losses. It studied the relationship between credit history and insurance losses based on a database of more than 150,000 automobile insurance policies. The database of policyholders was divided into 10 equal sized groups according to credit scores. Researchers matched credit data with the corresponding claims data and found that those with the poorest credit scores generated relative losses much higher than those with the best scores. Those with the poorest credit scores generated an average incurred loss of $918 per policy, 65 percent higher than those with the best credit scores that generated an average incurred loss of $558.

2000 Casualty Actuarial Society Paper by James E. Monaghan, ACAS, MAAA

Found a correlation between particular credit characteristics and loss ratios. The study used a series of credit characteristics that were combined into four distinct insured population groups. These four groups ranged from those policyholders with unacceptable credit rating to those with excellent credit ratings. The loss ratio performance for personal auto policyholders for those with the worst credit is 33 percent higher than the loss ratio for all policyholders combined. In contrast, those with the best credit generated a loss ratio 25 percent lower than the combined total.

1999 Virginia State Corporation Commission's Bureau of Insurance

Concluded that because income or race are not found in credit scores, the practice is not a tool for redlining. The Bureau analyzed the relationship between credit scores and income and well as the relationship between credit scores and race. Since neither Fair Isaac nor Trans Union collects data on income or race, the Bureau obtained the information from the 1989 federal census.

1996 Tillinghast-Towers Perrin

Found a 99 percent probability of a relationship between insurance scores and the likelihood of an individual filing an insurance claim. Tillinghast reviewed loss ratios relative to insurance scores for both auto and homeowners insurance. In eight of nine samples, the probability that a statistically significant correlation exists exceeded 99 percent.

*A loss ratio is the percentage of each premium dollar an insurer spends on claims.

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Insurance Institute of Michigan

Insurance Fraud: The Billion Dollar Disaster

Insurance fraud is one of the most costly white-collar crimes in America, ranking second only to tax evasion. It inflates the cost of insurance for all policyholders.

Nationally, property/casualty fraud totals an estimated $30 billion, or about 10 percent of claims. Adding other types of insurance to the equation, like health, life and specialty insurance, makes the total cost of fraud almost $96 billion.

While it is difficult to quantify fraud in Michigan, using this 10 percent estimate, the exposure for overall insurance no-fault insurance fraud is $150 million, while the exposure for auto theft fraud is about $56 million.

Insurance fraud occurs when people deceive an insurance company or agent to collect money to which they are not entitled. Insurance fraud perpetrators can be members of complex, organized fraud rings or the next-door neighbor looking for additional income. Examples of fraud include: inflating a claim to get out of paying a deductible or to cover past insurance premiums; orchestrating the destruction of an owned automobile, home or business to collect insurance; exaggerating the extent of a minor injury to collect workers' compensation benefits; and billing insurance companies for medical services that were not provided.

Insurance fraud is prevalent in Michigan. Almost a quarter of Michigan residents surveyed indicated that they knew someone who has committed insurance fraud.

The survey found that even though 23 percent knew someone who had committed fraud, only one-fifth of those reported the person to law enforcement authorities.

Michigan residents are also concerned about the problem of insurance fraud. Of those surveyed, 88 percent indicated that insurance fraud has a direct impact on them. It is estimated that insurance fraud cost the average American family an additional $200-300 per year in insurance premiums.

According to the Coalition Against Insurance Fraud, healthcare fraud alone costs Americans $54 billion a year. More than one third of people hurt in auto accidents exaggerate their injuries. This adds $13-$18 billion to America's annual insurance bill, notes a study by the Rand Institute for Civil Justice.

Many people wrongly believe that insurance fraud is a low-risk crime. Insurance cheaters view insurance fraud as a low-risk, high-reward game, and far safer than drug trafficking or armed robbery.

Michigan, however, has a strong law for those convicted of insurance fraud. Insurance fraud is a felony in Michigan. Those convicted of fraud can be jailed up to four years and/or fined up to $50,000 and ordered to pay restitution.

To combat insurance fraud in Michigan, insurance companies are increasing efforts to fight fraud by establishing Special Investigative Units (SIU) which train insurance personnel to identify suspicious losses that should be given a closer look.

Here in Michigan, the industry is actively involved in two organizations that have been established to combat specific types of fraudulent acts, including auto theft and arson. Insurance companies provide funding for rewards associated with these programs.

Through Arson Control, rewards up to **$5,000** are paid to persons who provide information that leads to the arrest and/or conviction of arsonists. The number for reporting these crimes is 1-800-44-ARSON.

The insurance industry is also involved in a program that pays for information leading to the arrest and warrant of thieves and chop shop operators. Citizens can call the tip line at 800-242-H.E.A.T.® (Help Eliminate Auto Thefts) with information on stolen cars and suspected auto theft activities. H.E.A.T.® tips are rewarded with up to $1,000 each for information that leads to the arrest and warrant of individuals suspected of auto theft, auto theft related insurance fraud and/or auto theft related identity theft, or up to $10,000 each for tips that result in the arrest and binding over for trial of suspected theft ring members and/or chop shop operators. In additional, H.E.A.T.® provides a $2,000 reward for the arrest and warrant of a carjacking suspect.

Insurance companies also sponsor the National Insurance Crime Bureau (NICB), a not-for-profit organization that receives support from approximately 1,000 property/casualty insurance companies. The NICB partners with insurers and law enforcement agencies to facilitate the identification, detection and prosecution of insurance criminals. Anyone who suspects insurance fraud, can call NICB at 1-800-TEL-NICB. Callers are eligible for rewards.

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Insurance Institute of Michigan

Homeowner's Insurance

A home is usually a person's most expensive possession. Protecting it — and what's in it — is extremely important.

Whether a person owns a home or rents a place to live, he/she will need to purchase insurance. Coverage for a home and personal belongings should be selected with care. In Michigan, home insurance is a good buy. The average homeowner's premium in 2005 was $734, below the countrywide average of $764.

Types of policies

The two most common types are HO-2 and HO-3.
The **Broad Form** (HO-2) covers damage to the dwelling and possessions from specific perils such as explosion, fire, lightning, windstorm, hail, riot, civil commotions, theft, vandalism, falling objects, smoke, and damage from a vehicle or aircraft.

A **Special Form** (HO-3) covers damage to personal property from the same perils as the Broad Form. The structure is covered against **all perils**, except a specific few. There is also a policy to meet the specific needs of condominium owners — HO-6.

Do renters need insurance?

Yes. Renters should not overlook the need for insurance. If a renter's building is destroyed, the landlord or property owner's policy will cover the structure only. To recover for the loss of personal belongings, the renter must have his/her own policy.

There is a policy tailored to fit the needs of renters. The renters policy, or HO-4, covers damage to possessions which result from certain causes. It is similar to the policy purchased by the owner of a house. The primary difference is that the renters policy does not include coverage on the building.

What other coverages are provided?

A homeowners or renters policy provides more than just financial protection for the property and/or contents. The policy also includes liability coverage. This coverage applies to you as well as any family members living in the household.

This portion of the policy provides coverage for legal liabilities if someone is injured on the premises. It also includes the cost of defending you in the event of a lawsuit.

Coverage is also provided for: 1) medical expenses resulting from minor injuries to others occurring on the property, and 2) damage that you or a family member might cause accidentally to another person's property.

Do homeowners policies provide coverage for personal property?

A homeowners insurance policy **does** cover personal belongings as well as the home itself. Coverage for personal property located on the premises is usually 50% of the insurance on the dwelling.

However, both homeowners and renters policies usually provide limited amounts of coverage for certain types of personal property. Those items, which are susceptible to loss include cash, securities, jewelry, firearms, and stamp and coin collections. Coverage for cash has a $200 limit, while coverage for other valuables varies between $1,000 and $2,500. For an additional premium, the consumer can purchase an endorsement that describes and insures each item for a certain dollar value.

Homeowners and renters insurance policies may cover contents on an **actual cash value** basis. That means the insurance company will pay the replacement cost, less depreciation.

However, a policy can be purchased to cover contents on a **replacement cost** basis. If personal property is destroyed, the insurance company will pay if you repair or replace it — without deducting for depreciation.

What is the difference between a replacement cost policy and a repair cost policy?

A **replacement cost** policy is the most common type of dwelling insurance. It pays for replacing, rebuilding or repairing the dwelling to its original condition with materials of like kind and quality. Another option offered by some insurance companies is the **repair cost** policy. This type of policy pays to replace, repair or rebuild damaged dwellings to a similar condition, using contemporary materials.

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Factors Which Determine The Cost Of Homeowners Premiums

For most people, their home is their most valuable asset. It represents not only a major investment of money, but also an accumulation of a lifetime's worth of possessions and memories. For a fairly modest amount of money, homeowners can protect both their home's structure and its contents in case of damage from a variety of causes.

How much an individual pays to insure his or her home depends on a number of factors that reflect the risk of damage to the home and the cost of the insurance company to repair or rebuild the home.

Michigan's Essential Insurance Act provides that rates shall not be excessive, inadequate or unfairly discriminatory. It further limits the factors an insurance company can use to determine the price of a homeowners policy. Following are just some of the classifications used.

Amount and type of insurance coverage. Homeowners can usually select from good-value, basic policies that will reimburse for the depreciated value of the home up to a deluxe policy that will guarantee to rebuild the home and replace its contents no matter what the cost. Coverage can also be added that is not a part of the regular insurance policy, such as coverage for a home business. The more coverages that are selected, the more expensive the policy will be.

Safety and security. Installation of dead-bolt locks, smoke detectors and fire extinguishers are loss prevention and loss reduction items which can help decrease the cost of a homeowners policy. The availability of law enforcement or crime prevention services also play a part in determining the homeowners policy premium.

Location of the home. Where a home is located has a significant impact on the cost to insure it, for several different reasons. Insurance companies will determine if the home is at risk for hail, tornado or other unusual damage; if the home is located within a reasonable distance from a fire service; if the home is located in an area of the country with high costs of construction; and if there is unusually high or low incidence of theft and arson where the home is located.

Type of home. A home's size, type of construction, building material components and number of units are just some of the important factors which determine a home's insurance costs because they affect what it would cost the insurance company should they have to rebuild the home. For example, homes that have unique construction details or older homes which require extensive repairs to comply with current building costs can be costly to rebuild.

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Insurance Institute of Michigan

Michigan Catastrophic Claims Association (MCCA)

Every year, consumers hear about the assessment for the Michigan Catastrophic Claims Association (MCCA). What is the MCCA? And, why is it unique to Michigan?

What is the MCCA?

The Michigan Catastrophic Claims Association (MCCA), an unincorporated non-profit association, was created by the state Legislature in 1978. The MCCA reimburses auto no-fault insurance companies for Personal Injury Protection (PIP) claims paid in excess of the current threshold of $440,000. That means that the injured party's insurance company pays the first $440,000 of medical expenses and the MCCA reimburses the insurance company for costs over that amount. That threshold is increased annually.

What is the purpose of the MCCA?

Michigan is the only state in the United States that provides ***unlimited*** coverage for medical expenses which result from auto accidents. So, individuals who are injured in auto accidents will receive reasonable and necessary medical benefits for their entire lifetime. The cost to run such a system is expensive. Without the MCCA, the stability of any insurance company could be threatened if it were faced with a series of catastrophic claims.

The MCCA currently pays out more than $55 million each month for claim costs resulting from catastrophic injuries. The majority of these catastrophic injuries involve severe closed-head injuries, paraplegia, quadriplegia and burns.

How is the MCCA funded?

The 1978 law requires all insurance companies that write automobile insurance in the state of Michigan to be members of the MCCA. The law specifies that the MCCA must distribute losses among all auto insurance companies doing business in the state of Michigan. The assessments paid to the MCCA by insurance companies are reflected in the auto insurance premiums paid by Michigan policyholders.

How does the MCCA determine its annual assessment?

The law requires the Association to assess an amount that is sufficient to cover the lifetime claims of all persons catastrophically injured in that year. During the period of July 1, 2008 through June 30, 2009, it is estimated that 1,100 individuals will be catastrophically injured in auto accidents. The MCCA also adjusts the annual assessment to compensate for surpluses or deficits from previous assessments.

The MCCA Board of Directors is comprised of five insurance company members appointed by the Commissioner of the Michigan Office of Financial and Insurance Regulation (OFIR). The Commissioner is also a non-voting member of the Board of Directors. After a comprehensive actuarial review, the MCCA Board of Directors determines the assessment.

What is the current assessment for the MCCA?

The 2008-9 assessment for the unlimited benefits is $104.58 per motor vehicle and $20.92 for historic vehicles. The assessment represents $96.06 per vehicle for pure premium (for accidents arising under insurance policies with the effective dates between July 1, 2008, and June 30, 2009), $8.32 for a partial deficit recoupment and 20 cents for administrative expenses. The $8.32 only recoups part of the deficit, currently estimated to be $79.00 per car.

How many claims have been reported to the MCCA?

Since 1979, there have been over 21,900 claims reported to the MCCA, which will cost an estimated $66 billion. This figure assumes inflating costs for products, services and accommodations necessary for the care, recovery and rehabilitation of injured persons throughout their lives.

In 2007 alone, the MCCA paid out $692 million for claim costs resulting from catastrophic injuries.

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RESIDUAL MARKETS AND SPECIAL PROGRAMS - **Michigan Catastrophic Claims Assoc.**	Insurance Institute of Michigan 334 Townsend, Lansing, MI 48933 517-371-2880 * Fax 517-371-2882 Most recent update: 3/08 - Next update: 3/09

Compiled from reports published by the Michigan Catastrophic Claims Association.

MICHIGAN CATASTROPHIC CLAIMS ASSOCIATION ASSESSMENT HISTORY

Assessment Period	Months	Pure Premium	(Surplus) Deficit Adjustment	Administration Expense	Assessment
7/1/78 to 6/30/79	12	$3.00	$0	0	$3.00
7/1/79 to 12/31/79	6	$6.28	$5.40	0	$11.68
1/1/80 to 12/31/80	12	$6.36	($0.36)	0	$6.00
1/1/81 to 12/31/81	12	$7.14	($0.58)	$.20	$6.76
1/1/82 to 12/31/82	12	$6.64	($0.81)	$.10	$5.93
1/1/83 to 12/31/83	12	$7.55	($2.12)	$.10	$5.53
1/1/84 to 12/31/84	12	$8.24	($2.44)	$.11	$5.91
1/1/85 to 12/31/85	12	$10.55	$1.40	$.10	$12.05
1/1/86 to 12/31/86	12	$11.24	$3.07	$.09	$14.40
1/1/87 to 12/31/87	12	$15.77	$6.81	$.09	$22.67
1/1/88 to 12/31/88	12	$24.41	$8.10	$.09	$32.60
1/1/89 to 12/31/89	12	$33.44	$10.12	$.09	$43.65
1/1/90 to 12/31/90	12	$48.12	$18.37	$.15	$66.64
1/1/91 to 12/31/91	12	$68.33	$32.50	$.17	$101.00
1/1/92 to 12/31/92	12	$77.69	$32.77	$.12	$110.58
1/1/93 to 12/31/93	12	$90.43	$28.14	$.12	$118.69
1/1/94 to 12/31/94	12	$98.71	$16.89	$.12	$115.72
1/1/95 to 12/31/95	12	$98.07	($1.24)	$.12	$96.95
1/1/96 to 12/31/96	12	$87.53	($15.06)	$.10	$72.57
1/1/97 to 12/31/97	12	$62.03	($47.19)	$.10	$14.94
1/1/98 to 12/31/98	12	$63.87	($58.37)	$.10	$5.60
1/1/99 to 12/31/99	12	$56.31	($50.81)	$.10	$5.60
1/1/00 to 12/31/00	12	$52.30	($46.79)	$.09	$5.60
1/1/01 to 12/31/01	12	$61.53	($47.21)	$.09	$14.41
1/1/02 to 6/30/02	6	$71.05	$0	$.10	$71.15
7/1/02 to 6/30/03	12	$68.90	$0	$.10	$69.00
7/1/03 to 6/30/04	12	$79.30	$20.80	$.10	$100.20
7/1/04 to 6/30/05	12	$95.93	$31.21	$.10	$127.24
7/1/05 to 6/30/06	12	$116.43	$25.17	$.10	$141.70
7/1/06 to 6/30/07	12	$113.48	$23.75	$.10	$137.33
7/1/07 to 6/30/08	12	$106.63	$16.42	$.10	$123.15
7/1/08 to 6/30/09	12	$96.06	$8.32	$.20	$104.58

- Since 1979 when the fund was started, 21,900 claims have been reported to the MCCA, which will cost an estimated $66 billion.

*The **Insurance Institute of Michigan** (IIM) is a government affairs and public information association proud to represent more than 90 property casualty insurance companies and related organizations operating in Michigan. IIM members write almost $8 billion in annual premium, or approximately 54 percent of the state's property/casualty insurance. IIM's purpose is to serve the Michigan insurance industry and the insurance consumer as a central focal point for educational, media, legislative and public information on insurance issues.*

Insurance Institute
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Medical Malpractice

In the 1970s there was a crisis in the availability of medical malpractice insurance. In the 1990s, Michigan enacted several tort reforms which has led to a more stable marketplace than the rest of the country .

Overview

Medical malpractice insurance covers doctors and other professionals in the medical field for lawsuits arising from their treatment of patients.

During the 1970s several private insurance companies left the medical malpractice insurance marketplace because of rising claims and inadequate rates. The exit led to an availability crisis. Over the next 15 years, various attempts were made to ease the explosion of claim cost, including tort reform, increased diagnostic testing, peer review and increased communication between doctors and patients. These efforts have appeared to have a positive impact on the number of claims. However, the cost of those claims has continued to grow.

Those growing claim costs led to an increased in medical malpractice insurance premiums at the beginning of this decade after a period of essentially flat prices. However, new research suggests that premium increases may be moderating but for any turnaround to take root significant reforms in the delivery of medical care that focus on patient safety need to occur.

Michigan's Experience

In the 1980s and 1990s, Michigan enacted several tort reforms that have led to a stable medical malpractice market. Michigan enacted a law which imposed more stringent standards on expert-witness testimony. The law also capped medical malpractice "pain and suffering" damages at $280,000 to $500,000.

As required by the reforms, the Michigan Office of Financial and Insurance Regulation (OFIR) released a report in November of 2008 that indicated the Michigan medical professional liability insurance market is remarkably stable during an extremely volatile period for the industry.

According to the study, the number of claims decreased steadily from 2000 through 2005. However, overall claim costs increased during the period. Overall, however, rate levels increased only moderately, while rates in other states experienced dramatic increases, in some cases tripling or quadrupling during the period.

The five year trend in insurance premium increases nationally has been approximately 14 to 16 percent, depending on the professional's specialty, according to the OFIR study. The effect in Michigan has been increases of between 1 and 10 percent annually.

"Overall, the medical professional liability insurance system in Michigan for the period 2000-2005 was quite stable. Claims (both reported and closed) decreased steadily, rates increased moderately, insurer operating results were generally profitable and competition was maintained at acceptable levels. This stability was in start contrast to the volatility of the 'crisis' conditions that were manifest in many other states during this period," it is concluded in the report.

A copy of the report can be found at:
http://www.michigan.gov/documents/dleg/OFIR_MICH_MEDICAL_PROFESSIONAL_LIABILITY_INSURANCE_MARKET_RPT_258056_7.pdf

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Insurance Institute of Michigan

Motorcycle Helmets

Michigan requires motorcyclists to wear a helmet. Attempts to repeal this law have failed. Why are motorcycle helmets an important safety issue?.

Overview

In 2007, there were 3,723 motorcycle-related crashes in Michigan, an increase from 3,296 in 2006. These crashes resulted in 121 deaths and another 2,748 injuries. Since 1969, Michigan has required all motorcyclists and their passengers to wear a helmet when riding on the state's roadways. Motorcycle helmets have been shown to save the lives of motorcyclists and prevent serious brain injuries.

According to the Insurance Institute for Highway Safety, 20 states and the District of Columbia had laws on the books requiring all motorcyclists to wear helmets as of December 2008. In another 28 states only people under a specific age (mostly between 17 and 20 years of age) were required to wear helmets. Two states (Illinois, Iowa and New Hampshire) have no helmet law.

Facts To Know

- According to the National Highway Traffic Safety Administration, helmets are about 37 percent effective in preventing motorcycle deaths and 67 percent effective in preventing brain injuries. An unhelmeted rider is 40 percent more likely to suffer a fatal head injury, compared with a rider with a helmet.

- If Michigan's mandatory motorcycle helmet law were to be repealed, the state should expect to see an annual increase of at least 30 fatalities, 127 incapacitating injuries, and $129 million in economic costs, according to an analysis by the Office of Highway Safety Planning.

- Motorcycle riders who crash without a helmet rack up far larger hospital bills than those whose heads were protected in a crash, according to a University of Michigan study. On average, helmet use led to average hospital costs that were about 20 percent, or $6,000 less than costs for those who didn't wear helmets. For patients who were treated on an inpatient rehabilitation floor at UM after leaving the trauma unit, average costs for unhelmeted riders were nearly twice those of helmeted riders.

- A Scripps Howard study found nine of the 10 states with the worst motorcycle death rates don't require adults to wear helmets. It also found that seven of the 10 states with the lowest death rates have mandatory helmet laws.

- Motorcycle crashes also account for a disproportionate share of money paid out of the Michigan Catastrophic Claims Association (MCCA), a fund which is supported by a surcharge on every auto insurance policy in this state. Although motorcyclists represent 1.7 percent of the assessments paid into the MCCA, they account for 6.7 percent of all claims reported.

Helmets Save Lives

The National Highway Traffic Safety Association estimates that from 1984 through 2006, helmets saved the lives of 19,230 motorcyclists. In 2007 motorcycle helmets saved 1,784 lives. National Highway Traffic Safety Association indicates that if all motorcyclists had worn helmets, 800 more lives would have been saved.

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No-Fault: Michigan's Unique Auto Insurance Law

There is considerable debate regarding Michigan's auto insurance law. What is so unique about this 37-year-old law? Why are Michigan motorists required to purchase no-fault? Here are the facts.

Michigan is generally recognized as model no-fault auto insurance law. Under a no-fault system, enacted in Michigan in 1972, fault usually is not at issue; one's own insurance company pays for medical expenses and lost wages, regardless of who caused the accident. The objective of the no-fault system is to eliminate delay and cost of court disputes associated with the court system, ensuring prompt payment of insurance benefits and return of a larger percentage of premium dollars to injured parties.

Before Michigan enacted a no-fault system, approximately 69,000 automobile injury lawsuits were filed each year. It was estimated that 35 cents of every premium dollar was spent for legal costs to determine who was at fault in an accident. While a lawsuit dragged on, the injured parties worried about medical bills and lost wages, and successful claims often were insufficient to cover an injured person's losses.

Seriously injured persons need not worry about who is going to pay for medical bills under a no-fault system. A Michigan no-fault insurance policy must pay all reasonable and necessary charges for medical care, including rehabilitation, for the lifetime of the injured person. The Michigan policy also provides up to three years for lost wages and replacement services. Under no-fault, these benefits are usually paid without the need to file a lawsuit.

Michigan's no-fault law permits lawsuits only under certain circumstances. A suit for damages claiming reimbursement for "pain and suffering" awards is prohibited unless a victim's injuries result in death, serious permanent disfigurement, or serious impairment of body function.

What does no-fault really mean?

Michigan's no-fault policy pays all reasonable and necessary charges for medical care, including rehabilitation, for the lifetime of a person injured in an auto crash. Michigan is the only state in the country that doesn't put a cap on medical benefits. It also provides up to three years for lost wages and replacement services. Maximum wage loss benefits currently are $59,376 per year for three years, adjusted annually for inflation and up to $20 a day is paid for replacement services that injured persons previously performed for themselves.

Another part of the policy provides protection if the insured is sued or legally responsible in accidents involving 1) death, serious impairment of body function or permanent serious disfigurement; 2) where actual economic losses sustained in an accident exceed the benefits available in Personal Injury Protection (PIP) coverage; and 3) in accidents occurring outside of Michigan for property damage and bodily injury.

Aside from the required no-fault coverage, insurance companies offer several optional coverages, such as Collision, Comprehensive, Uninsured Motorists and Road Service.

Most of the debate about Michigan's no-fault law has centered on its cost. While it is expensive to have the most generous no-fault benefits of any state, Michigan's average premium is ranked 12th in the country in a survey by the National Association of Insurance Commissioners.

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BACKGROUND INFORMATION ABOUT NO-FAULT IN MICHIGAN

Michigan is generally recognized as having one of the most efficient and effective auto insurance laws in the United States. Under this Statute, (Public Act 294 of 1972) accident victims are compensated by their own insurance carriers for most expenses due to property damage or personal injury, regardless of who was at fault. Our no-fault law became effective October 1, 1973.

The no-fault law requires automobile owners to buy certain mandatory coverages as a condition of vehicle licensure. It is illegal to drive or permit one's car to be operated without them. The penalty for driving without no-fault insurance is a misdemeanor punishable by a fine of not less than $500, and/or imprisonment for not more than one year.

MANDATORY COVERAGES

The mandatory no-fault coverages are personal injury protection (PIP), property protection insurance (PPI) and residual liability insurance.

Personal Injury Protection (PIP)

Personal injury benefits are paid to an accident victim by his/her own insurance company. Coverage applies to accidents occurring in the United States and Canada. PIP benefits also cover family members living in a policyholder's household if they do not have their own no-fault policy. The coverage protects them even if they are passengers in another person's car or pedestrians when they are injured. PIP pays:

- all reasonable and necessary medical expenses;
- 85 percent of the wages or salary the injured party would have earned, up to a maximum of $4,948 per month (effective 10-01-08) for three years. The maximum is subject to an annual cost-of-living adjustment. Policyholders may purchase coverage with higher benefit limits;
- up to $20 per day, for a maximum of three years, to pay someone to perform tasks of daily living that the injured person no longer can perform;
- survivor's loss benefits and replacement services for the insured's dependents in case of death;
- $1,750 funeral and burial expense benefits. Benefits of up to $5,000 may be purchased.

Property Protection Insurance (PPI)
PPI pays up to $1 million for damages caused by a policyholder's car to property of others, such as buildings, trees, and road signs, regardless of fault. Vehicles owned by others are excluded from coverage unless properly parked. Property protection does not apply to accidents occurring outside of Michigan.

Residual Liability Insurance
Residual liability coverage provides protection if a driver is sued or legally responsible for (1) accidents resulting in death, serious impairment of body function, or permanent, serious disfigurement; (2) accidents in which actual economic losses sustained exceed the benefits available in personal injury protection coverage; or (3) property damage and bodily injury in accidents occurring outside Michigan. The basic no-fault policy will pay $20,000 for one person's injury, $40,000 for all persons injured in one accident, and $10,000 per accident for property damage. Higher limits may be purchased.

OPTIONAL COVERAGES

Several optional coverages also may be offered as part of the no-fault insurance policy, including protection against collision, automobile damage other than collision, certain property damage liability, uninsured and underinsured motorists, and problems on the road.

Collision Insurance
Collision insurance is available in three forms: standard, broad and limited. Standard (regular) collision insurance pays for damage to an insured's vehicle, regardless of who is at fault. The insured pays a deductible--a specific amount of money--toward the repair or replacement of a loss, after which the insurance takes over and pays the remainder or other specified amount. Broad coverage pays for damage to the insured's vehicle regardless of who is at fault, but if the insured is more than 50 percent at fault, she/he pays the deductible. Limited collision insurance pays for damage to a vehicle (minus any deductible) only if the insured is not more than 50 percent at fault.

Comprehensive
Comprehensive coverage pays for most damage to an automobile caused by something other than collision. For example, comprehensive covers most damages caused by falling objects, accidents with animals, fire, windstorm, vandals or theft.

Limited Property Damage Liability (Mini-tort)
Mini-tort is an exception to the no-fault insurance law. It permits a driver to recover up to $500 for vehicle damage not covered by the driver's own insurance. To be eligible, the driver seeking recovery must not be more than 50 percent at fault for the accident. This coverage sometimes is available at no additional charge.

Uninsured and Underinsured Motorists
Uninsured motorist coverage protects insureds (through their own insurance company), against bodily injury liability losses from an accident involving a motorist driving without insurance or a hit-and-run driver. In the event of death, benefits are paid to survivors. Underinsured motorists coverage, which insures against bodily injury liability losses from an accident involving a driver whose policy has low residual liability coverage amounts, also allows insureds to pursue recovery of damages from their own company.

Road Service
Road Service coverage provides towing and other services to policyholders who have mechanical difficulty with their vehicles.

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MICHIGAN NO-FAULT: THE IMPETUS

(Editor's note: On October 1, 1993, Michigan's no-fault auto insurance law will have been in effect 20 years. While generally regarded as the country's most successful system of its type, it has also been the subject of some criticism. And even today, the debate continues. In this and subsequent issues we will attempt to trace its creation by representatives of government, insurance, unions, consumers, lawyers and many other interests. This first chapter in our report addresses the circumstances which prompted proposals for a no-fault system here.)

In the early 1970s, here in Michigan and throughout the United States, the no-fault concept enjoyed considerable momentum. This is perhaps best illustrated by remarks of then-Pennsylvania Insurance Commissioner Herbert Denenberg who was speaking at the 63rd Governor's Conference in Puerto Rico during September, 1971:

> *"No-fault is a politician's dream. It is legislation that can make virtually everyone in our society better off and can do so at a lower cost than that exacted by the present system.... The politics of no-fault make no-fault inevitable. Politics deals with the area of the possible. No-fault is a branch of the inevitable. No army of trial lawyers or lawyer-legislators can withstand the strength of an idea whose time has come. And no-fault is a classic example of such an idea. The only issue is whether it will be based on state law...or federal law. The only issue is who will get credit for enacting no-fault. The only issue is who among you will lead the way with the best no-fault plans."*

How did no-fault gain such popularity? During the 1960s, like today, auto insurance was making waves. Loss costs and premiums were rising rapidly. There were charges of geographic "redlining" and rating discrimination against both older and younger drivers. Life magazine published an editorial entitled "Auto Insurance Has No Friends," which may have accurately reflected consumer sentiment at the time.

Public policy makers were looking for a solution to both real and perceived affordability/availability problems. Many decided that a no-fault system would be the answer. Support for what was considered then to be a most revolutionary approach materialized slowly at first, but then expanded rapidly.

The no-fault concept for auto insurance had been circulating around the U.S. since 1932; but it was law school professors Robert E. Keeton and Jeffrey O'Connell who provided the impetus which would finally create widespread acceptance. Their plan, offered in 1965, included the following basic elements:

1. Each auto policy should include a minimum of $10,000 no-fault coverage, per person, for medical expense and wage loss.

2. Tort recovery would be limited to a) economic losses exceeding the no-fault coverage and b) non-economic losses in excess of $5,000.

Initial reactions to this approach were generally hostile from within the insurance industry. It was after all, an untried system – a radical departure with unknown consequences.

State Senator Coleman Young (D-Detroit), [then] Mayor of Detroit, introduced Michigan's first no-fault legislation during the 1965-66 session. It was patterned after the Keeton-O'Connell approach.

In 1967, an aggressive young legislator from Massachusetts, Michael Dukakis, sponsored the Keeton-O'Connell plan in that State's House of Representatives and pushed until it was approved by that chamber of the legislature. The rest of the country began to take notice.

In 1968, Consumers Union endorsed the Keeton-O'Connell plan. And, to the surprise of many within the industry, the American Insurance Association indicated support for a complete or "pure" no-fault approach, which would totally eliminate tort recovery for auto accident injuries.

The insurance industry's position was changing.

The next year, Michigan legislators approved a joint House/Senate Resolution calling for a study of auto insurance practices in the state. Limited no-fault plans became effective in most Canadian provinces and Puerto Rico.

During the 1969-70 Legislative Session, Michigan Representative Jim Heinze (R-Battle Creek), introduced a package of bills designed to create a partial no-fault system for state motorists. It was characterized as the "modified-fault" plan and had the support of most Michigan domestic auto insurers. Senators Coleman Young and Harvey Lodge (R-Waterford) also sponsored no-fault bills. No action was taken on any of these, however.

The Massachusetts no-fault legislation, an amended version of the original Keeton-O'Connell proposal, was enacted in October of 1970. It was considered a "modified" no-fault statute.

Also that year, initial results of a federal Department of Transportation (DOT) study were released, supporting the no-fault concept. Ultimately, DOT would advocate development of a federal plan which states would be encouraged but not required to adopt.

(Editor's note: This is the second in a series of article regarding creation of Michigan's unique no-fault law more than 20 year ago. In the initial installation, we reported on widespread interest in the no-fault concept which had been generated beginning in 1965 by law professors Robert E. Keeton and Jeffrey O'Connell. The idea was viewed by many as a solution to all auto insurance availability and affordability problems. It gained considerable support in the latter part of the decade and was adopted in a few jurisdictions. Michigan's first no-fault legislation was introduced by then-Senator Coleman Young (D-Detroit). No action was taken at that time, however. Things didn't get interesting in Lansing until 1971....)

On April 7, 1971, Michigan Representative Matthew McNeely (D-Detroit) and James Heinze (R-Battle Creek) introduced House Bills 4734-5-6-7, resurrecting the "modified-fault" proposal which had been offered during the previous legislative session. The outlook for its passage was considered good for a number of reasons.

The endorsement by McNeely, an influential Detroit Democrat who chaired the House Insurance Committee, seemed to signal probable success.

Heinze, a Republican from Battle Creek, was highly regarded by his fellow lawmakers and they looked to him for guidance on insurance matters. On leave of absence from his position of vice president and general counsel for what is now Transamerica Insurance, he served in the House from 1967 through 1972.

Further, the "modified-fault" plan was supported by the state's independent insurance agents and most Michigan domestic insurers which wrote auto coverage. In conveying their endorsement to state lawmakers, this latter group indicated "modified-fault" "…is an effort to meet the combined desires expressed by our customers for more effective and assured economic loss recovery for all, without eliminating the benefits of access to liability law recovery and pain and suffering damages, allocation of cost to those at fault, and a burn on the rise in insurance cost."

Below is a summary of the plan's key provisions, as originally introduced (it was later amended in a failed attempt to gain support of those groups which favored a broader approach):

1. Each policy would include, on a no-fault basis, $2,000 per person for health care/funeral benefits and $500 per month (12 months maximum) for lost earnings. Higher limits could be offered by insurers.

2. Accident victims would be permitted to seek recovery under the tort system for a) excess medical costs and wage loss and b) non-economic loss limited to the amount of the injured person's medical treatment expenses. This latter limit would not apply, however, to serious injuries such as dismemberment, permanent and serious disfigurement, etc.

3. Contingent attorney fees would be limited to 25 percent and arbitration would be required for all tort actions not brought to trial within two years after the filing date.

4. It should also be noted that this "modified-fault" plan did not propose compulsory insurance – as did other subsequent legislative proposals, including the one ultimately signed into law here. Back then, in order to obtain license plates, motorists could provide proof of insurance or pay $45 to the Motor Vehicle Accident Claims Fund. Persons suffering injury/loss caused by uninsured drivers could seek recovery from this Fund.

The McNeely-Heinze package wasn't the only one to receive consideration in 1971. Soon, other no-fault proposals were put on the table.

Senator Harvey Lodge (R-Waterford), Chair of the Commerce Committee, offered SB782, which approach what was characterized then as "pure" no-fault. It provided for optional no-fault property damage coverage, complete elimination of tort for bodily injury, unlimited health care/rehabilitation benefits, and wage loss benefits for an unlimited time period. It was an amended version of this bill that was finally enacted in 1972.

Senator Coleman Young proposed a similarly broad plan, considered to be a "pure" version.

Senator Jerome Hart (D-Saginaw), reportedly with the blessing of trial lawyers introduced a package to create unlimited no-fault health care benefits, 30 months of wage loss benefits, and increased opportunity for recovery under the tort system.

In June, 1971, the House Insurance Committee began a series of eight regional hearings on the subject of no-fault. Various public and private interests started to take sides in the debate.

At the initial hearing in Lansing then Insurance Commissioner Russell Van Hooser indicated support for only parts of the McNeely-Heinze "modified-fault" plan. Representatives of the National Association of Independent Insurers and American Mutual Insurance Alliance (now Alliance of American Insurers), endorsed the entire proposal.

The Independent Insurance Agents of Michigan (IIAM) president told House Insurance Committee members, "We conclude that the "modified-fault" proposal, by speeding up claim payments to injured persons, will produce an evolutionary change of considerable benefit to policyholders."

Lee Walton, speaking for the mutual agents association (which later became known as Professional Insurance Agents of Michigan), also registered support for "modified."

Elmer P. Simon, Vice President and General Counsel for Frankenmuth Mutual, testified that the "modified-fault" proposal "...comes closest to giving the public what it really wants at a price it is willing to pay."

Dennis F. Reinmuth, however, told lawmakers that the McNeely-Heize plan wouldn't work. An Associate Professor of Insurance at University of Michigan, Reinmuth said it would be inefficient and result in increased loss and administrative costs. He indicated strong support for the so-called "pure" no-fault legislative proposals, as did a representative of the American Insurance Association (AIA).

Spokesmen for the lawyers associations endorsed the concept of no-fault health care and wage loss benefits but, as might be expected, opposed any changes that would limit tort recovery.

As the hearings continued around the state, other interests solidified their positions on the issue and offered testimony.

Behind Vice President Douglas Fraser, United Auto Workers lined up on the side of "pure" no-fault with some retention of tort recovery for pain and suffering. Fraser testified in Detroit that a no-fault system would result in substantial savings to consumers. Later, a similar position was adopted by the Michigan Consumers Council.

The Michigan State Chamber of Commerce indicated support for the "modified-fault" plan. Secretary of State Richard Austin said he agreed with parts of it.

Later, representatives of the Michigan Insurance Bureau seemed to leaning more and more in the direction of a "pure" plan.

As the House Insurance Committee hearings concluded in November, participants in the no-fault debate had gradually moved into four camps; those supporting "modified-fault," "pure" no-fault with retention of some tort recovery, and those opposed to any tort limitation.

Coalitions were being formed and their relative strength would determine the outcome of the battle late in 1972.

(Editor's note: This is the last of three articles regarding creation of Michigan's unique no-fault law more than 20 years ago. Previously, we reported on 1) the role of law professors Robert E. Keeton and Jeffrey O'Connell in popularizing the concept and 2) legislative deliberations in Michigan during 1971. Several proposals had been offered that year and the House Insurance Committee held eight public hearings around the state. No significant action was taken by lawmakers, however. Public and private interests were forming coalitions to promote the particular version of no-fault which they favored: "modified" or a variation of "pure."

In the Democrat-controlled House of Representatives, the only no-fault legislation being given any real consideration initially was the "modified-fault" package of bills which had been sponsored by Representatives Matthew McNeely (D-Detroit) and Jim Heinze (R-Battle Creek). It provided for very limited first party health care, funeral and wage loss benefits and would allow tort recovery only for excess medical expense and serious injuries – on a non-compulsory basis.

This package, HB's 4734-5-6-7, was supported by most domestic insurers, independent insurance agents, the National Association of Independent Insurers, the American Mutual Insurance Alliance (now Alliance of American Insurers), and the State Chamber of Commerce.

At first, the prospects for legislative approval of "modified-fault" had seemed very good. Now, at the beginning of 1972, the situation was starting to change. Unions, consumer groups, the American Insurance Association (AIA) and other interests had become involved in the debate and were pushing for a more "pure" form of no-fault; and these plans were attracting attention in the Republican-controlled Senate.

The key Senate bill was SB782, which had been offered by Commerce Committee Chairman Harvey Lodge (R-Waterford). As originally introduced in 1971, it proposed optional no-fault property damage coverage, complete elimination of tort for bodily injury, unlimited first-party health care/rehabilitation, and wage loss benefits for an unlimited time period.

On January 5, 1972, Governor William Milliken took the unusual step of proposing his own no-fault plan. This move surprised industry representatives and others who had been devoted considerable time and attention to the issue for more than a year.

> *"Why a Milliken no-fault plan?" then-IIAM Secretary-Manager Jack Butterick asked in a bulletin to association members. "We cannot satisfactorily answer that question.... With several pure no-fault legislative bills on one side and the McNeely-Heinze 'modified-fault' bills on the other, the Governor chose to drive between them all; which seems to suggest that his version may satisfy nobody."*

The Milliken legislation incorporated unlimited health care and rehabilitation on a no-fault basis, wage loss protection (up to $1,000 per month for 36 months), and some limitations on tort recovery. The Governor said it was similar to the Massachusetts law that had been in effect since October of 1970 and that his plan could generate some premium savings; but he didn't want to make any such specific claims.

It was then being reported by the news media, however, that no-fault had provided big rate reductions for Massachusetts and Florida motorists.

The Senate Commerce Committee kicked-off a series of no-fault hearings in Detroit on February 2. In the meantime, it was generally expected that the House Insurance Committee would soon endorse the McNeely-Heinze "modified-fault" plan and it would be approved on the chamber floor. This was supposed to take place in March, but it didn't. Nor did it in April.

"The enthusiasm of some House Insurance Committee members for McNelly-Heinze has cooled dramatically in recent weeks," one observer noted. He blamed the delays on a coalition of unions, consumer groups and other interests which were opposed to "modified-fault" and favored a more "pure" system.

Efforts were made to work out a compromise for the House Insurance package but, on May 2, negotiations broke down. Chairman McNeely announced they had gone as far as they could go. He said action on "modified-fault" would be deferred indefinitely.

On June 1, the Senate Commerce Committee amended SB782 – creating the specific legislation which was later signed into law – and reported it to the chamber floor. It was approved there one week later.

The House Insurance Committee refused to go along with the amended version of SB782, however. Later, Representative Jim Heinze, who had voted against it, said he had been systematically excluded from no-fault negotiations in the past weeks, and termed recent events as "arrogant disregard." They handed us the substitute at six o'clock and told us to vote on it at seven. We didn't have a chance to read it," he added. The Legislature recessed for the summer.

On September 21, the House Insurance Committee convened. Michigan Association of Insurance Companies (MAIC) released a statement to the media indicating that the substitute for SB782 "...does not effectively define when the fault system could be used. This would open the door to a potential lawsuit in almost any injury case, which would retain most of the costs of the fault system and superimpose on them the added costs for the buyers of auto insurance, it would serve only to preserve the income of trial lawyers.

On that day, the House panel reported out a different substitute for SB 782. It was a liberalized version of the "modified-fault" plan with limited medical benefits. The bill was sent to the House floor, approved there, and forwarded to the Senate.

The Senators did not greet the House version of their bill with any enthusiasm, however. They shot it down by a vote of 3-30.

The matter was promptly referred to a joint Conference Committee, a majority of whose members opted for the Senate version of SB782. Their recommendation was approved easily in the Senate (23-11) and just barely in the House (56-31), after what observers characterized as "a lot of arm-twisting."

The battle was over; but one John Engler, a young Representative who had voted against the measure and [subsequently] served as Governor, gave this parting shot to his fellow House members on the chamber floor:

> *"The passage of...Senate Bill 782 will raise the cost of automobile insurance for the majority of my constituents. The concept of no-fault is desirable and I have...voted for that concept. However, the news media of this state have failed to present an accurate picture of what no-fault insurance means both in terms of coverage and cost to the public. Michigan's version of no-fault insurance will provide greater benefits and increased coverage. However, it will do so at an increased cost. This is because we have not yet discovered the magic formula which will allow us to give something for nothing...."*

Then-Governor Milliken signed the bill on October 31, 1972 and issued a press release: "This new law, one of the most significant legislative acts of the 1972 session, for a long time has been a major goal of mine and of many other groups and individuals. It is the product of the efforts of legislators of both parties and many public officials seeking to provide the basis for the finest system of automobile insurance in the nation."

Michigan's no-fault law took effect October 1, 1973.

The following publications were used as a reference for this series of articles: *Automobile Injury Compensation Insurance,* State Farm Mutual Automobile Insurance Company (1990); *Bulletin*, Independent Insurance Agents of Michigan (1970-1-2); and *Michigan Report,* Gongwer News Service, Inc. (1971-2).

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Insurance Institute of Michigan

Spotlight

Factors Which Determine The Cost Of Auto Premiums

Michigan is generally recognized as having the most efficent and effective auto insurance laws in the United States.

Michigan's Essential Insurance Act provides that rates shall not be excessive, inadequate or unfairly discriminatory. It further limits the factors an insurance company can use to determine the price of an auto policy. Following are just some of the classifications used to determine how much car insurance will cost.

Driver age, length of driving experience or number of years licensed to operate a vehicle. Statistics indicate that older, more experienced drivers are involved in fewer accidents.

Driving record. Good drivers pay lower premiums than those motorists with tickets and at-fault accidents.

Where the driver lives. More auto accidents and thefts occur in urban areas than in suburban or rural areas. Due to the increased risk, people who live in urban areas usually pay higher premiums.

Type and use of car. The cost of insuring a car depends not only on its value, but its safety features and cost to repair. Cars with air bags and anti-lock brakes may reduce the cost of Personal Injury Protection coverage. Cars used for business will cost more to insure than those used for pleasure because they are on the road more.

Coverages selected. In Michigan, drivers are required to carry Personal Injury Protection, Property Protection and Residual Liability; however, there are several "you choose" coverages available to motorists.

There are other social and economic factors which have an impact on the premium motorists pay for auto insurance coverage.

Social inflation. The term does not refer to specific social programs, but to rising costs brought on by the prevailing attitudes of society. More people are suing each other and today's juries are prone to grant larger awards. The cost of paying high court awards, settlements and even the expense of defending lawsuits translates into higher insurance premiums.

Health care costs. The average Personal Injury Protection (PIP) claim in Michigan in 2007 was $29,392. From 1997 to 2007, the average PIP claim rose more than 200 percent.

Car repair costs. A study by the Alliance of American Insurers shows it would cost $71,631 to buy all the parts and paint necessary for a 2002 Dodge Grand Caravan Sport which had a showroom retail price of $24,815. The $71,631 reflects only the cost of original equipment manufacturing replacement parts. It doesn't include the labor to assemble them.

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1/09

Crime. In 2007, 42,000 vehicles were stolen in Michigan — about one every 12 minutes. The amount paid for this crime through premiums is around $50 to several hundred dollars a year, depending on geographic location and value of the vehicle. Fraudulent claims are rising also. The National Insurance Crime Bureau estimates that property/casualty insurance crime costs more than $30 billion annually.

Statutory benefit increases. Under Michigan's no-fault law, the maximum work loss benefit payable to persons injured in auto accidents is adjusted each year to reflect changes in the National Consumer Price Index. When no-fault became law on October 1, 1973, the maximum work loss benefit was $1,000 per month or $36,000 over a three-year period. Today, the monthly benefit has risen to $4,948 — or about $178,128 for three years.

Insurance Institute of Michigan

*No-Fault States

State	Average Premium 2006	Insurance Required	BI Limits	PIP Medical Limits
Alabama	$819.38	BI, PD	25/50/20	Optional
Alaska	1,134.49	BI, PD	50/100/25	Optional
Arizona	1,047.35	BI, PD	15/30/10	Optional
Arkansas	838.55	BI, PD,PIP	25/50/25	$5,000
California	976.24	BI, PD	15/30/5	Optional
Colorado	921.57	BI, PD	25/50/15	Optional
Connecticut	1,080.31	BI , PD, UM, UIM	20/40/10	Optional
Delaware	1,114.86	BI, PD, PIP	15/30/10	$30,000
District of Columbia	1,315.55	BI, PD, UM2	5/50/10	Optional
*Florida	1,152.59	PD, PIP	10/20/10	$10,000
Georgia	964.83	BI, PD	25/50/25	optional
*Hawaii	968.42	BI, PD, PIP	20/40/10	$10,000
Idaho	695.50	BI, PD	25/50/15	optional
'linois	823.77	BI, PD, UM2	0/40/15	optional
ındiana	725.47	BI, PD	25/50/10	optional
Iowa	644.49	BI, PD	20/40/15	optional
*Kansas	732.80	BI, PD, PIP, UM	25/50/10	$4,500
*Kentucky	881.96	BI, PD, PIP	25/50/10	$1,000
Louisiana	1,254.66	BI, PD	10/20/10	optional
Maine	738.72	BI, PD, UM, UIM	50/100/25	optional
Maryland	1,035.60	BI, PD, PIP, UM	20/40/15	$2,500
*Massachusetts	1,124.00	BI, PD, PIP, UM	20/40/5	$2,000
***Michigan**	**1,067.74**	**BI, PD, PPI, PIP**	**20/40/10**	**unlimited**
*Minnesota	842.68	BI, PD, PIP, UM, UIM	30/60/10	$20,000
Mississippi	889.36	BI, PD	25/50/25	optional
Missouri	787.14	BI, PD, UM2	5/50/10	optional
Montana	837.66	BI, PD	25/50/10	optional
Nebraska	729.30	BI, PD	25/50/25	optional
Nevada	1,137.00	BI, PD	15/30/10	optional
New Hampshire	844.00	Financial Resp., UM	25/50/25	optional
*New Jersey	1,285.43	BI, PD, PIP, UM	15/30/5	$15,000
New Mexico	913.30	BI, PD	25/50/10	optional
New York	1,213.14	BI, PD, PIP, UM	25/50/10	$50,000

*The **Insurance Institute of Michigan** (IIM) is a government affairs and public information association proud to represent over 90 property/casualty insurance companies and related organizations operating in Michigan. IIM members write almost $8 billion in annual premium, or approximately 55 percent of the state's property/casualty insurance. IIM's purpose is to serve the Michigan insurance industry and the insurance consumer as a central focal point for educational, media, legislative and public information on insurance issues.*

State	Average Premium	Insurance Required	BI Limits	PIP Limits
North Carolina	714.40	BI, PD	30/60/25	Optional
*North Dakota	688.58	BI, PD, PIP, UM	25/50/25	$30,000
Ohio	737.19	BI, PD	12.5/25/7.5	Optional
Oklahoma	823.52	BI, PD	25/50/25	Optional
Oregon	812.20	BI, PD, PIP, UM	25/50/10	$15,000
*Pennsylvania	933.19	BI, PD, PIP	15/30/5	$5,000
Rhode Island	1,197.81	BI, PD, UM	25/50/25	optional
South Carolina	875.48	BI, PD, UM	25/50/25	optional
South Dakota	697.55	BI, PD, UM	25/50/25	optional
Tennessee	779.08	BI, PD	25/50/10	optional
Texas	977.88	BI, PD	20/40/15	optional
*Utah	809.63	BI, PD, PIP	25/65/15	$3,000
Vermont	788.63	BI, PD, UM, UIM	25/50/10	optional
Virginia	776.66	BI, PD, UM	25/50/20	optional
Washington	929.68	BI, PD	25/50/10	optional
West Virginia	987.51	BI, PD, UM	20/40/10	optional
Wisconsin	657.55	Financial Resp., UM	25/50/10	optional
Wyoming	811.85	BI, PD	25/50/20	optional
Countrywide	**$936.60**			

Compulsory coverages:
BI - Bodily Injury Liability
PD - Property Damage Liability
UM - Uninsured Motorists
UIM - Underinsured Motorists
PPI - Michigan has mandated Property Protection of $1 million
PIP- Personal Injury Protection (mandatory in no-fault states)
Financial Responsibility - insurance is not compulsory in this state.
The first two numbers refer to bodily injury liability limits and the third to property liability. For example, 20/40/10 means coverage up to $40,000 for all persons injured in an accident, subject to a limit of $20,000 for one individual and $10,000 coverage for property damage.

California - low-cost policy limits for Los Angeles and San Francisco low income drivers is 10/30/3.
Florida - instead of policy limits, policyholders can satisfy the requirement with a single limit policy.
Maine - in addition, policyholders must carry at least $1,000 medical payments.
New Jersey - Basic policy (optional) limits are 10/10/5. Uninsured and underinsured not available.
New York - in addition, policyholders must have 50/100 for wrongful death coverage.
Rhode Island - instead of policy limits, policyholders can satisfy the requirement with a single limit policy.
Tennessee - instead of policy limits, policyholders can satisfy the requirement with a single limit policy.
Utah - instead of policy limits, policyholders can satisfy the requirement with a single limit policy.

Comparison of PIP Benefits in True No-Fault States

Personal Injury Protection (PIP) benefits generally inc .es: medical, wage loss, replacement, funeral/burial

State	Average Premium	Medical	Wage Loss	Replacement Services	Survivor/Death	Funeral/Burial
Florida	$1,152.59	$10,000	60% of wages	100%	$5,000	
Hawaii	$968.42	$10,000	optional		optional	optional
Kansas	$732.80	$4,500	up to $900 month for 1 year	$25 day for 1 year	same as wage, replacement	$2,000
Kentucky	$881.96	$1,000	up to $200 per week	up to $200 per week	up to $200 per week	
Massachusetts	$1,124.00	$2,000 within 2 years	75% of wages	up to $8,000 for 1 year		$2,000
Michigan	$1,067.74	**unlimited**	**up to $4,948/month for 3 years**	**$20 per day for 3 years**	**same as wage, replacement**	**$1,750**
Minnesota	$842.68	$20,000	85% of wages	$200 per week	$200 per week	$2,000
New Jersey	$1,285.43	$15,000	up to $5,200 lifetime maximum	$12 per day up to $4,380	same as wage, replacement	$1,000
New York	$1,213.14	$50,000	up to $2,000 per month for 3 years	$25 per day for 1 year	$2,000	
North Datoka	$688.58	$30,000	up to $150 per week	$15 per day up to $150 week	$15 per day	$3,500
Pennsylvania	$933.19	$5,000	80% of wages	optional		optional
Utah	$809.63	$3,000	up to $250 week for 52 weeks	$20 per day for 52 weeks	$3,000	$1,500

Insurance Institute of Michigan (1-09)

Detroit Free Press
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Editorial: Lower option on no-fault coverage could ease costs

May 1, 2008

Michigan's unaffordable insurance rates are driving people out of Detroit and other large cities. They are practically forcing thousands of motorists to commit fraud to secure coverage or go, illegally, without it.

Easing this problem will require changes to Michigan's no-fault insurance law to allow drivers the option to lower rates by buying less medical coverage, as they can in other states. It's not a perfect solution. Michigan's unlimited no-fault system has been a noble tradition. But it has also made insurance unaffordable for too many people or forced them to go without, which puts a potential burden on everyone when accidents happen. The costs of continuing the current system now outweigh the benefits.

Some drivers in Detroit, the nation's poorest big city, pay $4,000 a year or more for auto insurance. But the problem goes far beyond Michigan's biggest city, where up to half of motorists drive uninsured. Statewide, 17% of drivers are on the road without insurance, up from 11% in 1989.

A Senate bill would allow drivers to buy as little as $50,000 in medical coverage, which would save an estimated 16% on a typical policy, reports the Insurance Institute of Michigan. The $50,000 minimum for personal injury protection would still rank among the nation's highest, and it would cover 95% of auto injuries in Michigan, even if every driver opted for the lowest coverage.

A House bill would set minimum medical coverage at $250,000. Given the high cost of medical care, the House bill is more prudent. The higher mandated minimum would still save policyholders 10% while offering some extra personal injury protection for those few drivers who needed it.

Since 1973, Michigan has been the only state to mandate unlimited lifetime medical benefits for those injured in auto crashes.

Modifying Michigan's no-fault system, while not without risk, would enable more people to purchase insurance. If insurance rates are to drop, so must costs. Legislators should not perpetuate a system that practically forces hundreds of thousands of people to drive uninsured and unprotected.

detnews.com

Editorial: Give drivers a chance to cut insurance costs

New Senate proposal joins House bills in offering coverage choices

Wednesday, May 7, 2008

State law is driving up the price of auto insurance premiums. Rates are about 15 percent higher in Michigan than the national average, but insurance prices here could be lower if drivers were given more choices in the policies they can buy.

Currently, the state requires that all auto insurance policies provide unlimited lifetime medical benefits for injured motorists. As a result, buyers pay about $140 more than the national average for a policy, according to the most recent statistics available from the National Association of Insurance Commissioners.

State Sen. Alan Sanborn, R-Richmond, has introduced legislation that would allow drivers a choice of purchasing either unlimited medical coverage, or a lesser amount of coverage ranging from $50,000 to $400,000.

Sanborn is joined by state Rep. Virgil Smith, D-Detroit, chairman of the House Insurance Committee, who along with state Rep. Joe Hune, R-Hamburg Township, last year introduced similar legislation in the House, but with minimum coverage beginning at $250,000.

An estimated one in five motorists in Michigan don't carry auto insurance, even though it is required by law, and many of these are in Detroit. A state legislative report issued two years ago noted that some drivers in Detroit had to pay as much as $4,000 annually to purchase auto insurance.

If more motorists can be induced to purchase coverage through lower prices, they and all other drivers would benefit. And this legislation, like the House package, allows motorists to retain the option of purchasing unlimited coverage.

But the fact is that many motorists already have employer-provided or government-provided health care insurance. They are required, in effect, to pay twice for the same coverage.

Obviously, for someone with no coverage or minimal health insurance, the unlimited benefit in an auto policy still makes the most sense. But for others, including some Detroiters, savings should be possible.

Michigan lawmakers have resisted giving motorists a reasonable choice in the range of coverage they can buy -- producing unnecessarily high prices -- while complaining about high insurance rates. These bills offer a fix that should be adopted.

DETROIT FREE PRESS
AUGUST 28, 2008

IN OUR OPINION

Insurance rates need major repair

The Michigan Supreme Court will likely decide whether Michigan insurance companies have the right to use credit histories to help determine a customer's coverage rates. Either way, the decision will do little, if anything, to ease the problem of unaffordable urban insurance rates. Legislators, not judges, must drive the solutions.

Banning credit scores would raise rates for some and lower them for others, but it won't solve the larger problem of affordability and equity in insurance. In truth, this change would hurt as many as it helps -- in and out of Michigan's great cities and across all economic lines. As many urban policy holders now enjoy good-credit discounts, amounting to 3% to 40%, as do rural and out-state residents.

Real problems demand real solutions. Michigan's unaffordable insurance rates are driving people out of Detroit and other large cities. They are practically forcing thousands of motorists to commit fraud to secure coverage or go, illegally, without it. Some drivers in Detroit, the nation's poorest big city according to statistics released this week, pay $4,000 a year or more for auto insurance.

The problems of affordability and access are so severe that legislators must make difficult choices, such as allowing drivers the option to lower rates by buying less medical coverage, as they can in other states, and having fee schedules for auto insurance companies paying for medical treatments and services, similar to the worker's compensation system. Other steps include authorizing the insurance commissioner to order refunds and requiring more public scrutiny of the Michigan Catastrophic Claims Association.

No one welcomes changes to Michigan's exemplary unlimited no-fault system, but having some protection is better than having none. Now, 17% of all Michigan drivers are on the road without insurance, up from 11% in 1989. In Detroit, the share may be as high as 50%. That's unacceptable.

Peter Kuhnmuench, executive director of the Insurance Institute of Michigan, said the trade group plans to appeal the recent Court of Appeals ruling that would prohibit Michigan insurance companies from using customers' credit scores to help determine premiums. Numerous studies show a direct correlation between credit scores and risk, and the Court of Appeals decision would increase rates for roughly two-thirds of policy holders, he said.

Whether or not that's true, it's hard to see how eliminating the use of credit scores would do anything but shift, rather than reduce, overall insurance costs for urban and low-income policy holders.

Whatever the courts ultimately decide, legislators must continue to work on finding real ways to lower insurance costs and reduce disparities.

detnews.com

Detroit News – Editorial

Tuesday, February 5, 2008

New insurance advocate should push for auto coverage choices

Citing the fact that "some" Michigan residents are paying among the highest auto and home insurance rates in Michigan, Gov. Jennifer Granholm has created a new office in state government: insurance consumer advocate. One of the advocate's duties will be to "fight for fair and affordable rates for all insurance ratepayers."

The need for the job can be questioned -- but as long as it has been created, one of the first duties of the advocate should be to seek more choices for auto insurance buyers.

The job of regulating the insurance industry will remain with the newly renamed Office of Financial and Insurance Regulation, formerly the Office of Financial and Insurance Services. This office has traditionally had the duty of making sure the state's insurance market is competitive and that insurance underwriters have enough reserves to pay off on policyholders' claims.

The new consumer advocate, in addition to "fighting" for affordable rates, has the authority to engage in educational programs for consumers on how to get the best prices for coverage, which may be a useful role.

The governor is right that auto insurance rates are higher than the national average, but there is a good reason for that. No other state in the nation requires that every auto insurance policy provide unlimited lifetime medical coverage. The state also requires very generous coverage for lost wages.

Michigan is a no-fault state, meaning drivers don't have to sue to recover their costs from an accident. But according to the latest (2005) state-by-state premium comparison information available from the National Association of Insurance Commissioners, Michigan residents pay about $140 more than the national average in auto insurance premium costs.

Lawmakers from both sides of the aisle have introduced legislative proposals that would allow consumers to continue to purchase unlimited lifetime medical benefit coverage, but would also give them options to buy lower amounts of coverage, which would reduce their premium. That legislation and several ballot issues on the topic in the last decade or so have had no political traction.

In Detroit, insurance premiums are a particular problem, sometimes costing as much as $4,000 per year. The relatively high cost of auto coverage in Michigan may be part of the reason that close to a fifth of all drivers may be breaking state law by canceling their auto insurance after they renew their licenses. Many people have other kinds of insurance that cover their medical costs and in effect are paying twice for the same coverage.

As for home insurance, the statewide average cost of the most frequently purchased package of coverage in Michigan is slightly below the national average, according to the insurance commissioners' group. While a study of the home insurance market issued in 2005 by the former state insurance commissioner, based on older data, noted pockets of what she termed "excessive" homeowner coverage costs, she found that competition in home insurance was generally good throughout the state.

Neither areas of coverage warrant some of the rather silly proposals to arbitrarily roll back rates by as much as 20 percent that occasionally have emerged from the Legislature.

If the new advocate, who has yet to be named, pushes for greater options in auto insurance coverage and informs consumers of price variations among companies that they can use in buying their policies, the office could perform a useful service.

But a more effective path would be for the governor to advocate for bringing Michigan law in line with other states.

Insurance Institute of Michigan

An Overview: Insurance Company Taxation

The taxation of insurance products in Michigan is widely misunderstood. Insurance companies pay a high level of taxes, regulatory fees and assessments to operate here..

Insurance companies are taxed in a unique fashion, unlike other industries. As is the case in nearly every other state, Michigan insurance companies are subject to a premiums tax applied to its gross direct premiums written. Michigan's premium tax rate is 1.25% as described in the Michigan Business Tax. (MCL 208.1235 (2))

All insurance companies are also subject to potential retaliatory taxes when selling their products outside of their state of domicile. Retaliatory taxes have the effect of requiring an insurance company to pay a premiums tax rate equal to the higher of its home state tax rate, or the rate of the state into which it is selling its product. (MCL 208.1243 (1)) No other industry faces a similar tax structure. Retaliatory tax laws have the effect of encouraging states to adopt comparatively low premiums tax rates so as not to disadvantage carriers headquartered in their state.

Insurance companies operating in Michigan pay a high rate of tax compared to other industry sectors. In 2006, insurance companies operating in Michigan paid over $219 million in single business tax/retaliatory taxes to the State of Michigan. This represents approximately 11% of the total Single Business Tax collections for the year. Yet insurance companies represent only 2% of the employment base and less than 3% of payroll in the state.

Despite this disproportionate treatment, Michigan enjoys a relatively low effective insurance tax rate as compared to other states. This low comparative tax rate ensures that Michigan-based insurance companies will not be unfairly penalized when selling their products in other states.

Insurance companies operating in Michigan are also subject to a number of "special assessments" which have been adopted by the Michigan Legislature. Included among these are the Michigan Basic Property Insurance Association and the Michigan Workers' Compensation Placement Facility. These additional assessments totaled over $182 million in 2006. Insurance carriers do receive a credit against their tax liability for some of the special assessments.

Insurance companies in Michigan also pay annual license fees and separate regulatory assessments to the State of Michigan. These fees and assessments totaled over $13 million in 2006.

January, 2009

Insurance Institute of Michigan

Overview of Michigan Insurance Industry Taxation

Domestic insurance companies pay the Single Business Tax. Foreign insurance companies (companies not headquartered in Michigan) pay the SBT or retaliatory tax, whichever is greater.

Michigan Single Business Tax Collection FY2006 (including SBT/Retaliatory taxes paid by insurance carriers)	$2,061,000,000
Single Business/Retaliatory taxes paid by insurance companies in Michigan in FY2006	219,500,000
Percent of SBT paid by insurance companies FY'06	11%
Special assessments paid or incurred by property/casualty insurance carriers operating in Michigan in 2006	182,841,000
Licensing and regulation fees paid to state in FY'06	5,247,953
**Assessment paid in FY'06 to fund Michigan Office of Financial and Insurance Services	7,853,539
Total paid by insurance companies for taxes and special programs	$415,4426,492

Special assessments and other costs paid or incurred by insurance companies for state mandated funds and special programs in 2006:

*Michigan Automobile Insurance Placement Facility	(4,252,000)
*Michigan Workers' Compensation Placement Facility	5,161,000
*Michigan Basic Property Insurance Association	21,779,000
Automobile Theft Prevention Authority	6,371,000
Assigned Claims Facility	126,692,000
Silicosis, Dust Disease and Logging Industry Compensation	768,000
Second Injury Fund	10,571,000
Safety Education & Training Fund	3,557,000
*Michigan Property & Casualty Guaranty Association	12,194,000
*Michigan Life/Health Guaranty Association	-0-
Total	$182,841,000

* Credits against tax liability allowed for assessments by these funds
**50% credit allowed against tax liability for this assessment

1/09

Insurance Institute
of Michigan

The Hidden Taxes on Insurance

When policyholders pay their insurance premiums, they probably think they are only paying for coverage to fit their individual needs. That is not the whole story, however. When customers pay their premium, they are also paying state-mandated programs that provide services normally paid for by government, such things as: employee safety training, auto theft prevention and below-cost insurance for certain individuals.

Insurance can provide financial protection for almost anything that might happen unexpectedly or accidentally. Policyholders buy insurance to protect themselves against the chance of losses that can burden them financially. However, in Michigan, when policyholders pay premiums, they are paying not only to protect themselves and their family, they are paying for special programs mandated by state law.

Over the years, government at all levels has used the insurance industry to collect money for their special programs or projects, effectively using the insurance industry as a "tax collector." Although the level of this activity differs from state to state, in the end, it is the policyholder who pays.

The insurance industry in Michigan pays its fair share of corporate taxes -- over $219 million to the state annually. In Fiscal Year 2006, insurance companies operating in Michigan paid 11 percent of the total business tax collected by the state, a proportion that has been increasing in the past several years.

Additionally, insurance companies pay nearly $8 million annually to fund its own regulation through the Michigan Office of Financial and Insurance Services. Another $5 million was paid by insurance companies to the state for annual licensing and regulation fees.

These taxes and fees are in addition to the more than $182 million the insurance industry pays annually for special "state-mandated" programs. These include subsidized insurance funds or so-called "high-risk" pools, which provide below-cost coverage for some of the state's citizens and businesses.

An example of these little-known programs is Michigan Workers' Compensation Placement Facility (MWCPF), an organization created by state law to provide workers' compensation insurance to employers who might have difficulty obtaining coverage from insurance companies in the regular market. MWCPF charges below-cost rates for insurance and is allowed by law to recoup its financial losses from all insurance companies selling the particular line affected. In 2006, MWCPF collected $5 million from private carriers to cover its losses. That money is ultimately collected from policyholders of those insurance companies assessed through higher premiums.

The Michigan Property Casualty Guaranty Association (MPCGA) also levies assessments against property/casualty insurers operating in Michigan. The assessments are used to pay losses of insolvent insurers. In 2006, those assessments totaled $12 million. There is a similar program for life/health insurance companies.

There are still other special insurance programs required by state law and funded by private insurance companies and their policyholders. These include programs that reimburse employers or insurance companies for certain workers' compensation benefits paid in excess of statutory limits in case of disability from silicosis, other dust diseases or from employment in the logging industry. Another state-mandated assessment is used to conduct job safety training; and still another to fund a program that offers financial grants for certain anti-auto theft programs.

Insurance companies can receive a credit against their tax liability for some of these funds, but not all.

The insurance industry contributes significantly to Michigan's economy. There are over 1,500 insurance companies licensed to operate in Michigan. It is estimated that almost 55,000 persons are directly employed by the insurance industry in this state.

Insurance companies pay billions of dollars each year in claims and benefits to policyholders. These dollars are used to pay medical care of those injured, rebuild and repair houses, repair automobiles and replace personal property, all of which create more jobs – and stimulate additional economic development.

Insurance companies need to do what they do best -- serve their customers by providing a good product at a reasonable price. Adding costs to insurance premiums that most citizens associate with government responsibility adversely distorts the real cost of insurance.

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SPECIAL ASSESSMENTS AND OTHER COSTS PAID OR INCURRED BY PROPERTY/CASUALTY INSURERS OPERATING IN MICHIGAN -- IN ADDITION TO LOCAL, STATE AND FEDERAL TAXES (000 OMITTED)

Subsidized Insurance Funds	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Michigan Automobile Insurance Placement Facility	$36,685	$49,467	$3,696	$9,053	($1,254)	33,997	714	1,867	(15,300)	(4,252)
Michigan Workers' Compensation Placement Facility	**(250)	10,089	**(5,498)	10,603	2,376	(73)	32,736	3,747	5,232	5,161
Michigan Basic Property Insurance Association	48,862	38,208	33,742	17,736	13,641	17,707	17,855	-0-	-0-	21,779
Other State Programs										
Automobile Theft Prevention Authority	5,813	5,952	6,077	6,144	6,282	6,403	6,319	6,464	6,387	6,371
Assigned Claims Facility	37,742	37,736	44,780	53,407	58,256	64,991	81,624	100,577	117,585	126,692
Silicosis, Dust Disease & Logging Industry Compensation	1,388	4,230	--	1,416	1,103	2,963	101	1,435	1,112	768
Second Injury Fund	11,245	9,776	7,099	21,045	5,306	13,797	3,671	8,720	8,649	10,571
Safety Education & Training	2,466	1,897	1,927	2,393	2,370	3,007	3,439	3,402	3,843	3,557
Michigan Property & Casualty	--	--	--	*(5,999)	10,327	25,792	21,600	12,348	12,600	12,194
GRAND TOTAL	**$143,951**	**$157,355**	**$91,823**	**$115,798**	**$98,407**	**$168,584**	**$168,059**	**138,560**	**140,108**	**$182,841**

*Compiled by the Insurance Institute of Michigan, 334 Townsend, Lansing, MI 48933*517/371-2880*

Insurance Institute
of Michigan

Auto Insurance Rates in Urban Areas

Here in Michigan and throughout the United States, motorists in densely populated urban areas pay more for car insurance. For example, a Detroiter often pays twice as much to purchase the same coverage for the same car, relative to an outstate resident. This rating system – which includes geographic location – as a factor in premium has been the target of critics for years.

Insurance industry critics charge that auto insurance rates should be based on how someone drives, not where they live. Some people contend that it is unfair for someone in an urban area to pay higher rates than someone who lives near them, but in a different zip code.

However, insurance premiums paid by urban motorists are neither arbitrary nor discriminatory. They are a true reflection of insurance costs. The frequency and severity of insurance claims are generally higher in urban areas. So premiums must be higher.

Industry critics insist that auto coverage for big city motorists is often not "affordable." In effect, they are encouraging insurance companies to reduce premiums to levels that would be inadequate for payment of claims and expenses. To do so would generate significant financial loss on policies sold in large metropolitan areas…and/or require subsidization by other policyholders in the state. Neither is a viable alternative.

In 2005, Michigan Office of Financial and Insurance Regulation (OFIR) initiated a study to review auto and homeowners insurance rates in Michigan. The study, conducted by Wayne State University Center for Urban Studies, found that by "standard economic tests and current statutory provisions, the markets for home insurance and private passenger auto insurance in standard statistical territories throughout the state are reasonably competitive based on 2001 and 2002 data. Therefore, the rates charged by private insurers in those markets, if challenged by the Commissioner under Section 2114(2) could not be found to be excessive under current law, even if they were found to be unreasonably high in relation to covered losses."

Questions & Answers About Urban Auto Insurance Rates in Michigan

Why are car insurance premiums generally higher in large urban areas?

Urban motorists pay higher costs for auto insurance here because there are:

- more vehicles per square mile, hence providing a greater chance for an accident;
- more injury claims reported whenever a damage claim is filed;
- higher amounts of injury economic losses and average payments due to higher health care costs;
- more uninsured motorists;
- higher proportions of claimants hiring attorneys to settle claims; and
- more motor vehicle thefts per 10,000 population.

Is the difference in auto premiums --- between large urban areas and other parts of Michigan –based on actual loss experience? Or is it discriminatory?

The difference is based on loss experience. There is no element of discrimination, racial or otherwise.

It is not just urban dwellers who pay more for car insurance. People living in large metropolitan areas throughout the U.S. pay considerably more than do those residing in rural and suburban areas. This is due to the reasons cited above. Insurance pay out is higher, so premiums have to be higher.

Don't suburban drivers, who commute to a large city and have accidents there, force up rates for those living in the city?

No. When the suburbanite has an insured loss, no matter where the loss occurs, it is assigned to the geographic location of his/her residence. So, the loss is reflected in future rates paid by people living in that particular suburb.

Of course, motorists who commute to the city from the suburbs do have greater exposure to loss. That is the reason they pay more for auto insurance than their suburban neighbors who do not drive a considerable distance to work.

Do property/casualty insurers make excessive profits?

According to a study commissioned by the Michigan Office of Financial and Insurance Regulation (OFIR), Michigan insurance company returns on net worth have been below the national norms over the last decade. The study by Wayne State University for Urban Studies noted, "...the last decade has been an unusually unprofitable period for insurance companies in Michigan, with loss ratios above historical averages for the state and contemporaneous averages for the nation."

Isn't redlining against the law?

When "redlining" is used to mean discrimination based on race, this is illegal and is condemned by the insurance industry. However, many times the term "redlining" is being incorrectly used to describe the differences in price and availability of insurance based on real risk.

What factors are used to rate auto insurance?

Michigan's Essential Insurance Act provides that rates shall not be excessive, inadequate or unfairly discriminatory. It further limits the factors an insurance company can use to determine the price of an auto policy. Following are just some of the classifications used to determine how much car insurance will cost.

Driver age, length of driving experience or number of years licensed to operate a vehicle. Statistics indicate that older, more experienced drivers are involved in fewer accidents.

Driving record. Good drivers pay lower premiums than those motorists with tickets and at-fault accidents.

Where the driver lives. More auto accidents and thefts occur in urban areas than in suburban or rural areas. Due to the increased risk, people who live in urban areas usually pay higher premiums.

Type and use of car. The cost of insuring a car depends not only on its value, but its safety features and cost to repair. Cars with air bags and anti-lock brakes may reduce the cost of Personal Injury Protection coverage. Cars used for business will cost more to insure than those used for pleasure because they are on the road more.

Coverages selected. In Michigan, drivers are required to carry Personal Injury Protection, Property Protection and Residual Liability; however, there are several "you choose" coverages available to motorists.

How can insurance rates be reduced?

Since the factors used to set rates in Michigan are required by law, the only realistic way to reduce rates is to reduce the amount insurance companies are paying out, by reducing auto theft, arson, number of accidents, and controlling medical and auto repair costs.

The Insurance Institute of Michigan supports legislative efforts to control the cost of insurance by allowing consumers choices in their Personal Injury Protection (PIP) benefit levels, stepping up anti-fraud efforts and implementing a fee scheduled for auto insurance medical treatment.

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Insurance Institute of Michigan

Uninsured Motorists

In Michigan, every driver is required to carry certain mandated auto insurance coverages. However, some people decide not to abide by the law and secure insurance. How do uninsured motorists impact the cost of insurance in Michigan?

Overview

Michigan requires drivers to have certain mandated auto insurance coverages before they can get on the road. Drivers in Michigan are required to purchase three no-fault auto insurance coverages: Personal Injury Protection, Property Protection and Residual Bodily Injury.

Personal Injury Protection (PIP) coverage pays all reasonable and necessary charges for medical care, including rehabilitation, for the lifetime of a person injured in an auto crash. Michigan is the only state in the country that mandates unlimited medical benefits. It also requires up to three years for lost wages and replacement services. Maximum wage loss benefits currently are $59,376 per year for three years, adjusted annually for inflation and up to $20 a day is paid for replacement services that injured persons previously performed for themselves.

Property Damage covers damage to the property of others, with the exception of properly parked cars. State law requires $1 million in coverage for this mandate.

Residual Bodily Injury coverage provides protection if the insured is sued or legally responsible in accidents involving 1) death, serious impairment of body function or permanent serious disfigurement; 2) where actual economic losses sustained in an accident exceed the benefits available in Personal Injury Protection (PIP) coverage; and 3) in accidents occurring outside of Michigan for property damage and bodily injury.

However, there are motorists in Michigan who drive without insurance. Driving without insurance in this state is a misdemeanor and punishable by up to a $500 fine and a year in jail.

Statistics

Although it is difficult to know exactly how many people are driving without insurance in Michigan, a recent study by the Insurance Research Council estimates that 17 percent of drivers don't have insurance.

That estimate is expected to rise for 2008. The Insurance Research Council indicates that a single percentage point increase in the unemployment rate is associated with a half-point increase in the percentage of uninsured drivers.

A study by Risk Information, Inc. found that cost, along with enforcement and culture influence a person's decision whether or not to purchase auto insurance.

The National Association of Insurance Commissioners (NAIC) suggested that strict enforcement of compulsory auto insurance laws, with mandatory and "significant" fines for first-time offenders may be the key to lowering the uninsured motorists population.

Michigan drivers can purchase uninsured/underinsured motorists coverage that provides protection when they are involved in an accident with an uninsured or underinsured motorist. While not reducing the number of uninsured drivers on the roadway, the coverage provides a way that drivers can deal with the financial consequences of accidents with hit-and-run or uninsured motorists.

Uninsured drivers in Michigan cannot recover no-fault benefits. However, their passengers can. There is also a fund created by state law that provides benefits to people who have been injured by an uninsured motorists and have no insurance coverage of their own. All auto insurance carriers in the state pay an assessment to cover the costs of these benefits.

Uninsured drivers do drive up the cost of insurance for law-abiding citizens.

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Insurance Institute
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Workers' Compensation

How does the workers' compensation system work in Michigan and how does it benefit employees and employers?

Overview

Workers' compensation is an insurance system, mutually beneficial to both employees and their employers. It serves two basic purposes:

- To provide benefits to employees who have suffered a work-related injury or illness; and
- To protect employers from costly litigation over claims of work-related injuries and illnesses.

Benefits to the injured employee can include medical treatment; partial replacement of lost wages; and vocational rehabilitation so the injured worker can return to gainful employment as quickly as possible.

Workers' compensation is the oldest form of no-fault insurance. Workers' compensation insurance was enacted in Michigan in 1912. By 1920, all but eight of the other states had passed workers' compensation laws.

Workers' compensation is "no fault" in the sense that benefits are paid without regard to who or what caused or contributed to an injury or illness that **"arises out of, or in the course of, employment."** Before this insurance system was established, an employer could be sued for negligence and could only defend himself/herself against such lawsuits by proving that the employee was at least partially at fault, that a fellow employee contributed to the injury, or that the employee assumed the risk of potential injury by accepting the job.

All private employers must have workers' compensation coverage if they regularly employ three or more workers at one time; or during the preceding 52 weeks, they have regularly employed at least one worker for 35 hours or more per week for 13 weeks or longer.

All public employers must have coverage. Any other employer can voluntarily choose to buy workers' compensation coverage. By doing so, the employer is protected against being sued in the event a worker is injured on the job.

Michigan Claim Costs

The system seems to be working well in Michigan. Workers' compensation costs per claim in Michigan were lower than typical among 14 states, according to a 2008 study by the Workers Compensation Research Institute (WCRI).

The average medical payment per claim in Michigan was the lowest among the 14 study states, 31 percent lower than the median for injuries arising in 2003 with experience through the first quarter of 2006.

Payments per claim for lost wages, known as indemnity benefits, with more than seven days of lost time were 19 percent lower in Michigan than the 14-state median for 2003/2006 claims.

Premiums

Pure premium rates for workers' compensation insurance were expected to drop by an average 4.2 percent in 2008, continuing a long-term downward trend during which the rate average has dropped by 35.9 percent over the past 10 years. The pure premium rate is the annual yardstick against which private insurance carriers can compare their rate structure for workers' compensation coverage for the coming year.

The drop in average rates for 2008 is due in part to a reduced number of work-related injury claims due to well-developed safety programs; change in the nature of work today; and a fee schedule, which controls medical costs for work-related injuries and is revised annually by the state's Workers' Compensation Agency.

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Glossary of Insurance Terms

Actual Cash Value:
Insurance under which the amount payable is the current replacement cost of the property new; reduced by an allowance for depreciation, wear and obsolescence.

Actuary:
A highly-specialized mathematician professionally trained in the risk aspects of insurance, whose functions include the determination of proper insurance rates, evaluation of reserves and other statistical responsibilities.

Additional Living Expense:
A property coverage which pays for the extra, above-normal costs of such expenses as food and lodging incurred while the insured's residence is being rebuilt or repaired after damage from an insured peril.

Adjuster:
A person who investigates and settles losses for an insurance carrier.

Agent:
Laws of all states require all insurance agents to be licensed by the state to sell insurance. Agents may be categorized as: (1) An Exclusive Agent, who is a sales employee or sales representative of one and only one insurance company or its affiliated group of insurance companies, and seeks and services business exclusively for that company or group. (2) An Independent Agent, who usually represents two or more insurance companies or groups in a sales and service capacity as an independent businessperson.

Allied Lines:
Types of insurance associated with property insurance, which may include earthquake, sprinkler leakage, and income and extra expense coverages.

Application:
The statement of information that a prospective insured provides when applying for an insurance policy and that an insurance company uses to help decide if it will issue the policy and what premium rate will be charged.

Arson:
The willful and malicious burning of, or attempt to burn, any structure or other property, often with criminal or fraudulent intent.

Assigned Claims Facility:
A mechanism in Michigan to provide Personal Injury Protection benefits to eligible persons injured in auto accidents -- when no regular policy is available or identifiable.

Automobile Insurance (Coverages):
Definitions of specific types of auto insurance coverages are listed alphabetically throughout the Glossary—Personal Injury Protection, Property Protection, Property Damage, Bodily Injury Liability, Collision, Comprehensive, Collision and Comprehensive Coverages, Underinsured Motorists Coverage, and Uninsured Motorists Coverage.

Binder:
A written or oral contract issued temporarily to place insurance in force immediately prior to issuance of new policy or endorsement of existing one.

Business Interruption Insurance:
Coverage for a business policyholder against losses resulting from a temporary shutdown because of fire or other insured peril. The insurance provides reimbursement for loss net profits and necessary continuing expenses.

Cancellation:
The termination of an insurance policy or bond by an insurance company or policyholder before its expiration date.

Catastrophe:
A sudden event causing an extraordinary level of loss; most often associated with natural disasters, such as tornadoes or floods.

Claim:
A request for payment to recover from a loss which may come under the terms of an insurance contract.

Claim Frequency
The number of claims occuring under a given coverage divided by the number of earned exposures for the given coverage.

Claim Severity:
The average cost per claim.

Classification:
The combining of policyholders or properties into groups with the same general characteristics so that the various groups' inherent differences in exposure to loss can be recognized for rating or underwriting purposes.

Coinsurance (property insurance):
A provision in an insurance policy which requires the insured to carry insurance equal to a certain specified percentage of the value of the property in order to receive full payment for a loss. However, if the policyholder fails to carry the necessary amount of insurance, the insured assumes a proportionate share of the loss.

Collision Coverage:
Protection against loss resulting from any damage to the policyholder's vehicle caused by collision with another vehicle or object.

Combined Ratio:
The sum of the ratio of losses incurred to premiums earned and the ratio of commissions and expenses incurred to premiums written.

Commercial General Liability:
Often referred to as the CGL, this policy provides broad protection against situations in which a business must defend itself against lawsuits or pay damages for personal injury or property damage to third parties.

Glossary of Insurance Terms

Commercial Lines:
The various kinds of insurance which are written for businesses, organizations, institutions, governmental agencies or other establishments.

Commission:
A percentage of an insurance premium paid to an agent or broker for producing and servicing the business.

Comprehensive Coverage:
Protection against loss resulting from damage to the vehicle from things other than collision, such as theft, fire, glass breakage, deer collisions, hail.

Coverage:
The scope of the protection provided under a contract of insurance.

Credit-Based Insurance Score:
Credit-based insurance scores are confidential rankings based on credit information. This includes whether the consumer has made timely payments on loans, the number of open credit card accounts and whether a bankruptcy filing has been made. A credit-based insurance score is a measure of how well consumers manage their financial affairs, not of their financial assets. It does not include information about income or race.

Declaration:
The part of an insurance policy which includes the name and address of the insured, the property insured, its location and description, the policy period, the amount of insurance coverage, applicable premiums, and supplemental information provided by the insured.

Deductible:
The specified amount of a loss a policyholder agrees to pay, per claim or per accident, toward the total amount of an insured loss.

Depreciation:
A decrease in the value of property due to wear and tear or obsolescence.

Dividend:
An amount returned to a policyholder by an insurance company out of its earnings. Also, in stock companies, a share of profits distributed to stockholders.

Earned Premium:
The portion of a premium which is the property of an insurance company, based on the expired portion of the policy period.

Endorsement:
A form attached to an insurance policy to add to, alter or vary its provisions.

Essential Insurance Act:
A law unique to Michigan that limits the factors which an insurance company can use to establish rates for auto and home policies. Defines the circumstances under which a company can refuse to issue or renew policies and requires that consumers receive more information, including the insurance company's underwriting and rating procedures.

Exclusion:
A provision in an insurance policy that eliminates coverage for certain risks, people, property classes, or locations.

Expense Ratio:
The ratio of a company's operating expenses to premiums written. (Expenses include losses and loss adjustment expenses.)

Experience:
The loss record of an insured or of a particular class of coverage.

Exposure:
This term in the insurance field may have several meanings: (1) possibility of loss; (2) a loss potential as measured by type of construction, area or values; (3) a possibility of a loss being communicated to an insurance risk from its surroundings; or (4) a unit of measure of the amount of risk a company assumes (For example, one car insured for one year).

Fire Insurance:
Coverage protecting property against losses caused by a fire or lightning that is usually included in homeowners or commercial multiple peril policies.

First-Party Coverage:
Coverage for the policyholder's own property or person.

Floater:
A form of insurance that applies to movable property, whatever its location, within the territorial limits imposed by the contract. The coverage "floats" with the property.

Flood Insurance:
Flood insurance is not available under a regular homeowners policy. It is available from a federal program, the National Flood Insurance Program.

Foreign Insurance Company:
An insurer headquartered in a state other than Michigan.

Fraud: (Insurance)
Intentional concealment or misrepresentation with the objective of forcing an insurer to provide a benefit (such as paying a claim) which otherwise would not be provided.

General Liability Insurance:
A broad term meaning liability insurance, other than automobile liability or employers' liability, written to cover professional and commercial risks. In respect to commercial liability, various available coverages could cover such risks as premises and operations, contractual liability, products and completed operations.

Group Insurance:
A single policy covering a group of individuals, usually employees of the same company or members of the same association and their dependents. Coverage is provided under a master policy issued to the employer or association with indvidual certificates given to each insured person.

Glossary of Insurance Terms

Hazard:
The presence of a condition which creates or increases the chance for loss or injury to property or persons. For example, smoking in bed increases the chance for loss of property and life resulting from fire.

Homeowners Policy:
A package type of insurance for the homeowner that combines "named peril" (including theft coverage) protection on contents with dwelling coverage ranging from "named peril" to "all perils except those specifically excluded" for physical loss, additional living expense and personal liability insurance.

Identity Theft Coverage:
Coverage for expenses incurred as the result of an identity theft. Can include costs for notarizing fraud affidavits and certified mail, lost income from time taken off from work to meet with law-enforcement personnel or credit agencies, fees for reapplying for loans and attorney's fees to defend against lawsuits and remove criminal or civil judgments.

Incurred Losses:
Losses occurring within a fixed period, whether or not adjusted or paid during the same period.

Indemnify:
Provide financial compensation for losses.

'nland Marine Insurance:
Covers articles in transit by all forms of land and air transportation as well as bridges, tunnels and other means of transportation and communication. Floaters that cover expensive personal items such as fine art and jewelry are included in this category.

Insolvency:
Insurer's inability to pay debts. When regulators deem an insurance company is in danger of becoming insolvent, they can take one of three actions: place a company in conservatorship or rehabilitation if the company can be saved or liquidation if salvage is deemed impossible.

Insurable Risk:
Risks for which it is relatively easy to get insurance and that meet certain criteria. These include being definable, accidental in nature, and part of a group of similar risks large enough to make losses predictable. The insurance company also must be able to come up with a reasonable price for the insurance.

Insurance:
A system to make large financial losses more affordable by pooling the risks of many individuals and business entities and transferring them to an insurance company or other large group in return for a premium.

Insured:
A person covered by an insurance policy.

Investment Income:
The income generated by a company's portfolio of investments (such as bonds, stocks or other financial ventures).

Liability Insurance:
Insurance covering the policyholder's legal liability for injuries to other persons or damages to their property.

Limit:
The maximum amount of benefits that an insurer agrees to pay in the event of a loss.

Litigation:
The process of a lawsuit.

Loss:
A reduction in the quality or value of a property, or a legal liability.

Loss Adjustment Expenses:
The sum insurers pay for investigating and settling insurance claims, including the cost of defending a lawsuit in court.

Loss Ratio:
In property and liability insurance, the percent that losses bear to premiums for a given period.

Loss Reserve:
The estimated liability on an insurer's balance sheet for unpaid insurance claims or losses that have occurred as of a given reporting date. On an individual claim, the loss reserve is the estimate of what will ultimately be paid out on that case.

Malpractice Insurance:
Coverage afforded to a professional practitioner, such as a doctor or a lawyer, against claims for damages resulting from alleged negligence in the performance of the insured's services.

Michigan Catastrophic Claims Association:
A fund set up by Michigan law that reimburses auto insurance companies for medical claims over $440,000. Insurance companies pay an assessment to cover the MCCA's liabilities. These costs are then passed on to all policyholders.

Mini-Tort:
A law in Michigan that allows motorists to recover up to $500 for vehicle damage not covered by insurance.

Multi-Peril Policy:
A package policy that provides protection against a number of separate perils.

Mutual Insurance Company
An insurance company owned by its policyholders.

No-Fault Automobile Insurance:
A form of insurance by which a person's financial losses resulting from an automobile accident, such as medical and hospital expenses and loss of income, are paid by his/her own insurance company without regard to who was at fault. The right to sue may be restricted in some cases.

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Notice of Loss:
A written notice required by insurance companies immediately after an accident or other loss. Part of the standard provisions defining a policyholder's responsibilities after a loss.

Ocean Marine Insurance:
Coverage for property damage to seagoing vessels and cargo, including such risks as piracy and the jettisoning of cargo to save the property of others. Coverage for marine-related liabilities. War is excluded from basic policies, but can be bought back.

Operating Expenses:
The cost of maintaining a business' property, includes insurance, property taxes, utilities and rent, but excludes income tax, depreciation and other financing expenses.

Package Policy:
A combination of two or more coverages into a single policy. A homeowners policy, for example, is a package combining property, liability and theft coverages for the homeowner.

Paid Losses:
The actual dollar total that has been paid on incurred losses by issuing checks or drafts to claimants.

Peril:
The cause of a loss, such as fire, windstorm, theft, explosion or riot.

Personal Injury Protection Automobile Insurance (PIP):
Benefits paid to the insured by his/her own insurance company, including medical expenses, lost wages, replacement services, and funeral and death benefits. In Michigan, there is unlimited benefits for all reasonable and necessary medical services.

Personal Lines:
Types of insurance written for individuals or families, rather than for businesses.

Personal Property:
This type of property is usually movable and easily transportable.

Policy:
The written contract of insurance.

Policyholder:
One who owns an insurance policy. A mortgagee often is issued a copy of an insurance policy or certificate of insurance at the request of the insured, but it is not a policyholder.

Policyholders' Surplus:
The sum an insurance company has remaining after all liabilities are deducted from all assets. Sums such as paid-in capital and special voluntary reserves are also included in this term. This surplus is one form of financial protection to policyholders in the event a company suffers unexpected or catastrophic losses.

Pool:
An organization of insurers or reinsurers through which particular types of risks are underwritten with premiums, losses and expenses shared in agreed ratios.

Premium:
The amount of money charged a policyholder for an insurance policy.

Premium Discount:
An amount subtracted from an insurance premium due to some merit or circumstance of the policyholder.

Premiums Written:
The total premiums on all policies written by an insurer during a specified period of time, regardless of what portions have been earned. Net premiums written are premiums written after reinsurance transactions.

Product Liability Insurance:
Protects manufacturers' and distributors' exposure to lawsuits by people who have sustained bodily injury or property damage through the use of the product.

Proof of Loss:
A written statement made by the policyholder for the insurer regarding a claim so that the insurer may determine its liability under the policy.

Property/Casualty Insurance:
Covers damage to or loss of policyholders' property and legal liability for damages caused to other people or their property. Property/casualty insurance, which includes auto, homeowners and commercial insurance, is one segment of the insurance industry. The other sector is life/health.

Property Protection Coverage:
Provides coverage for damaged caused by your car to the property of others.

Rate:
The cost of a given unit of insurance on which a premium is based.

Rating Territory:
In various property and casualty lines, a geographical grouping within which insureds are likely to share an exposure to similar risks. Grouping of insureds within a territory helps establish equitable rates for the territory.

Redlining:
An illegal act to refuse to lend money or issue insurance based only on geographic area.

Reinsurance:
An arrangement by which one insurer transfers all or a portion of its risk under a policy or group of policies to another insurer (reinsurer). Thus reinsurance is insurance purchased by an insurance company from another insurer, to reduce risk for the original insurer.

Glossary of Insurance Terms

Renters Policy:
A package type of insurance that includes coverage similar to a homeowners policy to cover the personal property of a renter or tenant in a building.

Replacement Cost Property Coverage:
Insurance under which the amount payable is the current replacement cost of the property new, rather than the depreciated value. Applies to the building structures (in most cases) and can apply to contents in some policies.

Reserve:
(1) An amount representing actual or potential liabilities kept by an insurer to cover obligations to policyholders and third-party claimants. (2) An amount allocated for a special purpose. Note that a reserve is usually a liability and not an extra fund. On occasion, a reserve may be an asset, such as a reserve for taxes not yet due.

Residual Liability Coverage:
In Michigan, provides protection if you are sued or legally responsible: 1) in accidents involving death, serious impairment of body function or permanent, serious disfigurement; 2) when actual economic losses sustained in an accident exceed the benefits available in Personal Injury Protection; 3) in accidents occurring outside of Michigan for property damage and bodily injury.

Residual Market:
A general term describing the total of all consumers who have had difficulty purchasing insurance through normal channels. Automobile Insurance Plans, FAIR Plans, Reinsurance Facilities and Joint Underwriting Associations all service this market.

Retention:
The net amount of risk retained by an insurance company for its own account or that of specified others, and not reinsured.

Rider:
Additional provision added to a policy by issuance of an amending document.

Risk:
Chance of loss with respect to person, liability or the property of the insured. Also is used to mean "the insured."

Schedule:
A list describing the property or items insured under the policy and the extent to which they are insured.

Self-Insurance:
A form of risk financing through which a firm assumes all or a part of its own losses. Self-insurers may purchase insurance to cover excess losses.

Special Multi-Peril Policy (SMP):
A business policy which combines in one contract the coverages normally purchased under several policies. Many options and endorsements are available to tailor it to the policyholder's needs.

Spread of Risk:
The selling of insurance in multiple areas to multiple policyholders to minimize the danger that all policyholders will have losses at the same time. Companies are more likely to insure perils that offer a good spread of risk. Flood insurance is an example of a poor spread of risk because the people most likely to buy it are the people close to rivers and other bodies of water that flood.

Statutory Underwriting Profit or Loss:
Earnings or losses as shown by an insurer on its Statutory Income Statement (convention blank) as required by state insurance departments. More specifically: (1) the profit or loss realized from insurance operations as distinct from that realized from investments; (2) the excess of premiums over losses and expenses (profit), or the excess of losses and expenses over premiums (loss).

Stock Company:
A company organized and owned by stockholders, as distinguished from the mutual form of company, which is owned by its policyholders.

Subrogation:
A principle of law incorporated in insurance policies that enables an insurance company, after paying a loss to its insured, to recover the amount of the loss from another who is legally liable for it.

Surety Bond:
An agreement providing for monetary compensation should there be a failure to perform specific acts within a stated period. The surety company, for example, becomes responsible for fulfillment of a contract if the contractor defaults.

Surplus:
A stock company's surplus is the amount by which its admitted assets exceed its liabilities and capital stock. In both stock and mutual companies, the term surplus-to-policyholders means the excess of admitted assets over liabilities.

Surplus Lines:
A term originating in property/casualty insurance, used to describe any risk or part thereof for which insurance is not available through a company licensed in the applicant's state (an "admitted" insurer). The business, therefore, is placed with "non-admitted" insurers (insurers not licensed in the state) in accordance with surplus or excess lines provisions of state insurance laws. These provisions generally allow operations on a relatively unregulated basis; that is, the non-admitted insurer is not subject to the same rate or coverage requirements that apply to an admitted insurer.

Term:
A period of time for which a policy is issued.

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Territorial Rating:
A method of classifying risks by geographic location to set a fair price for coverage. The location of the insured may have a considerable impact on the cost of losses. The chance of an accident or theft is much higher in an urban area than in a rural one, for example.

Terrorism Coverage:
Included as a part of the package in standard commercial insurance policies before September 11, 2001 virtually free of charge. Since September 11, terrorism coverage prices have increased substantially to reflect the current risk.

Theft Insurance:
Protection for loss of property due to stealing, including burglary, robbery and larceny.

Third-Party Coverage:
Liability coverage purchased by the policyholder as a protection against possible lawsuits filed by a third party. The insured and the insurer are the first and second parties to the insurance contract.

Threshold:
Used in no-fault auto insurance to remove non-serious cases from the tort system by establishing a point of "threshold" that must be met or exceeded to sue in tort. Michigan has a verbal threshold.

Title Insurance:
An insurance contract relating to real estate described in the policy which protects the insured landowner against loss or damage by reason of defects, liens or encumbrances in the insured title, if these faults exist at the date of the policy and are not expressly excluded from its terms.

Tort:
Any wrongful act, damage or injury done willfully, negligently or in circumstances involving strict liability, but not involving breach of contract, for which a civil lawsuit can be brought.

Total Loss:
The condition of an automobile or other property when damage is so extensive that repair costs would exceed the value of the vehicle or property.

Umbrella Liability Policy:
A form of insurance protection against losses in excess of amounts covered by other liability insurance policies; also protects the insured in many situations not covered by the usual liability policies. This policy is available for both personal and commercial lines coverage.

Underinsured Motorists Coverage (UIM):
Coverage is intended to cover you and passengers in your car for losses unpaid because sufficient bodily injury liability limits are not available from the policy of an at-fault driver.

Underwriter:
An employee of an insurance company who is a selector of risks. The underwriter is expected to select business that will produce an average risk of loss no greater than anticipated for the class of business. In the life insurance industry, "underwriter" may also mean an agent or other field representative who is referred to as a "field underwriter."

Underwriting:
The process of selecting risks for insurance and determining in what amounts and on what terms the insurance company accepts the risk.

Underwriting Profit or Loss:
The profit or loss experienced by a property/casualty insurance company after deducting from earned premiums the incurred losses and expenses of doing business, but before provision of federal income tax. It excludes investment income.

Unearned Premium:
The portion of a property/casualty insurance premium that applies to the unexpired portion of the policy period.

Uninsurable Risk:
Insurance is not available due to excessive risk.

Uninsured Motorists Coverage:
Insurance which covers the policyholder and family members if injured by a hit-and-run motorist or a driver who carries no liability insurance.

Void:
A policy contract that for some reason specified in the policy becomes free of all legal effect. One example under which a policy could be voided is when information a policyholder provided is proven untrue.

Voluntary Market:
The market where a person seeking insurance obtains it with no help from the state, through an insurer of his or her own selection.

Waiver:
The surrender of a right or privilege which is known to exist.

Warranty:
A statement made on an application for most kinds of insurance that is warranted as true in all respects. If untrue, in any respect, even though the untruth was not known to the applicant, the contract may be voided without regard to the materiality of the statement.

Workers' Compensation:
A system (established under state laws) where employers secure insurance for their employees for work-related injury, death and disease regardless of fault.